



December 2021 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

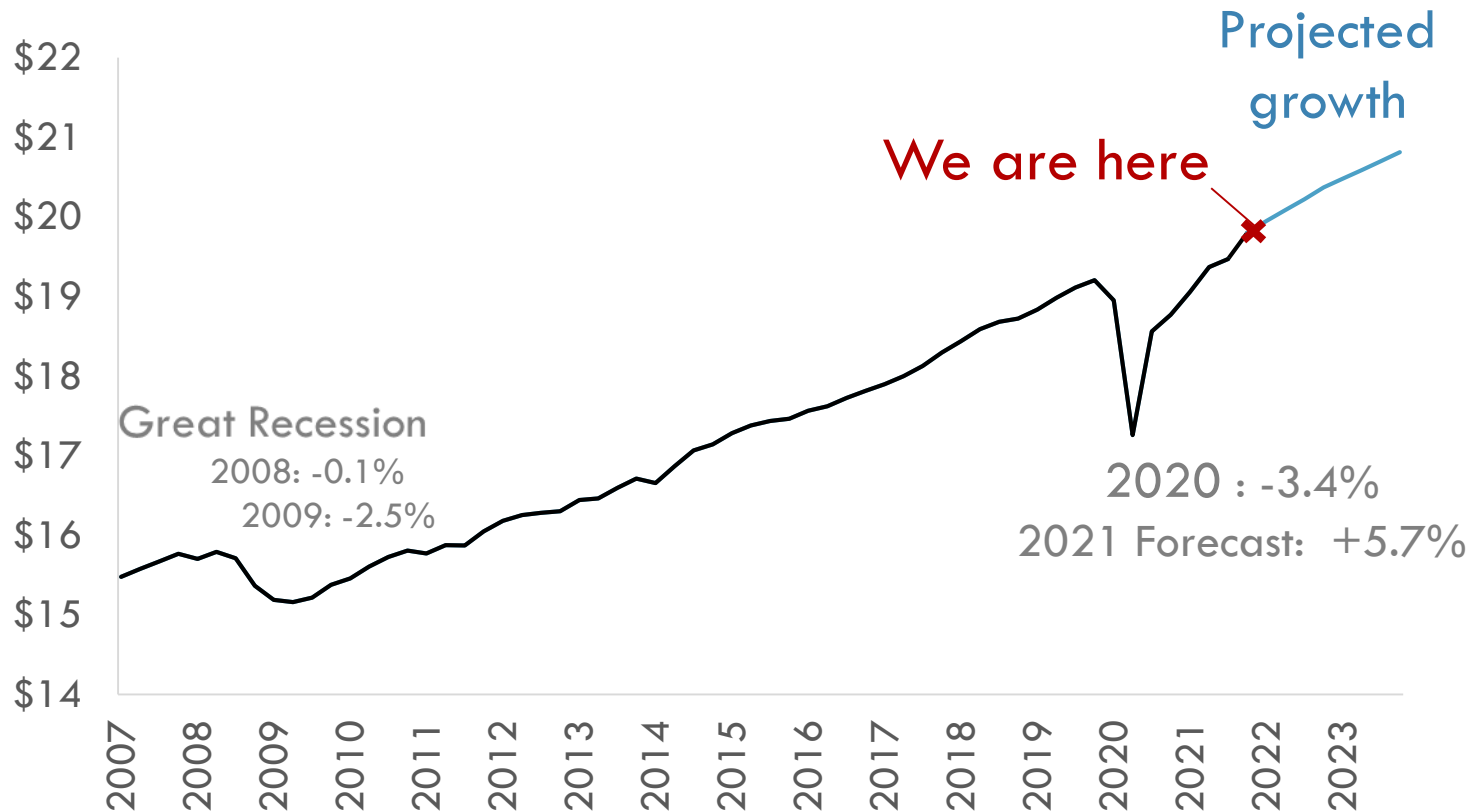
December 17, 2021

Economic Outlook



The economy continues to recover, with consumer activity driving growth

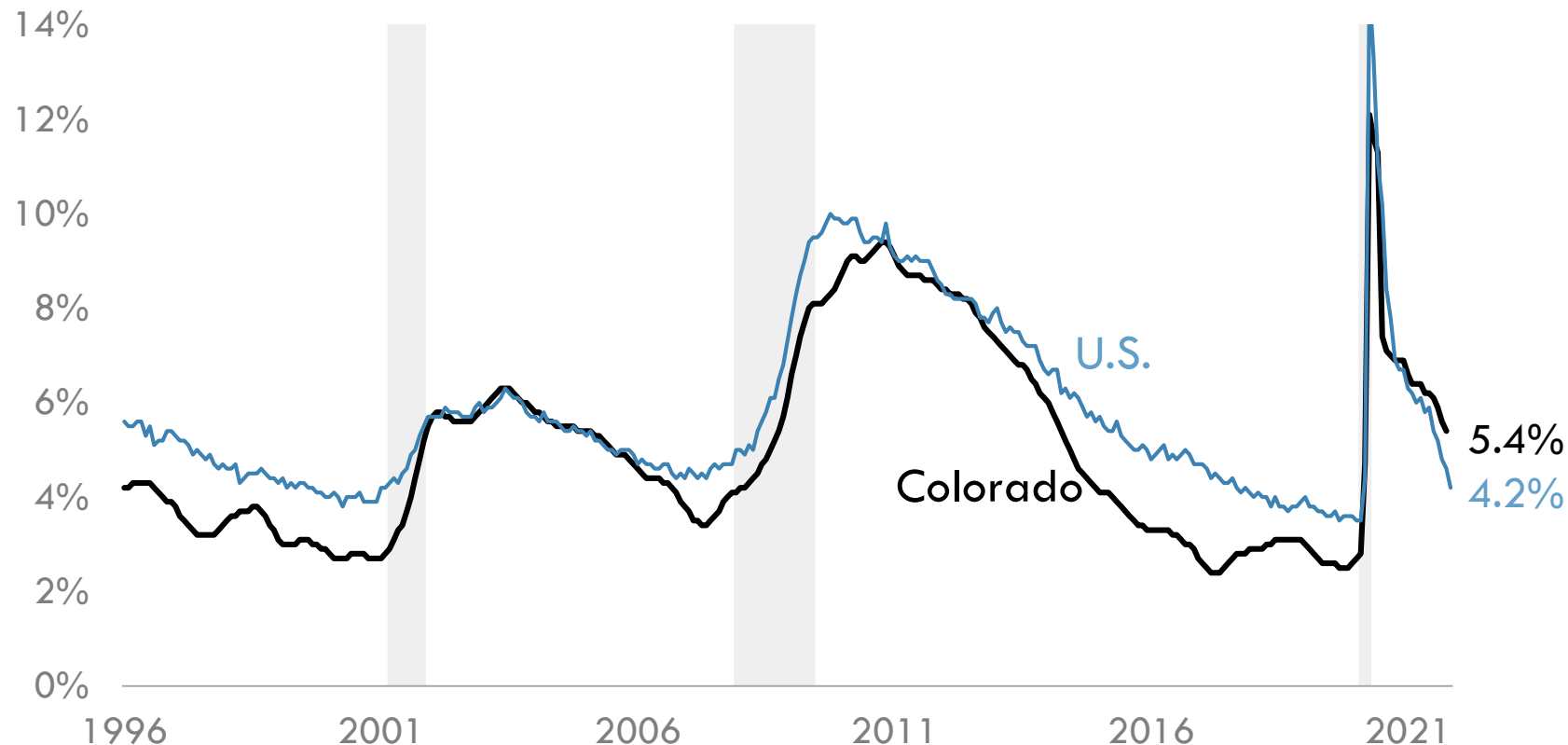
Real U.S. Gross Domestic Product
Dollars in Trillions



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff December 2021 projections.
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

Colorado's unemployment rate fell to 5.4 percent in October

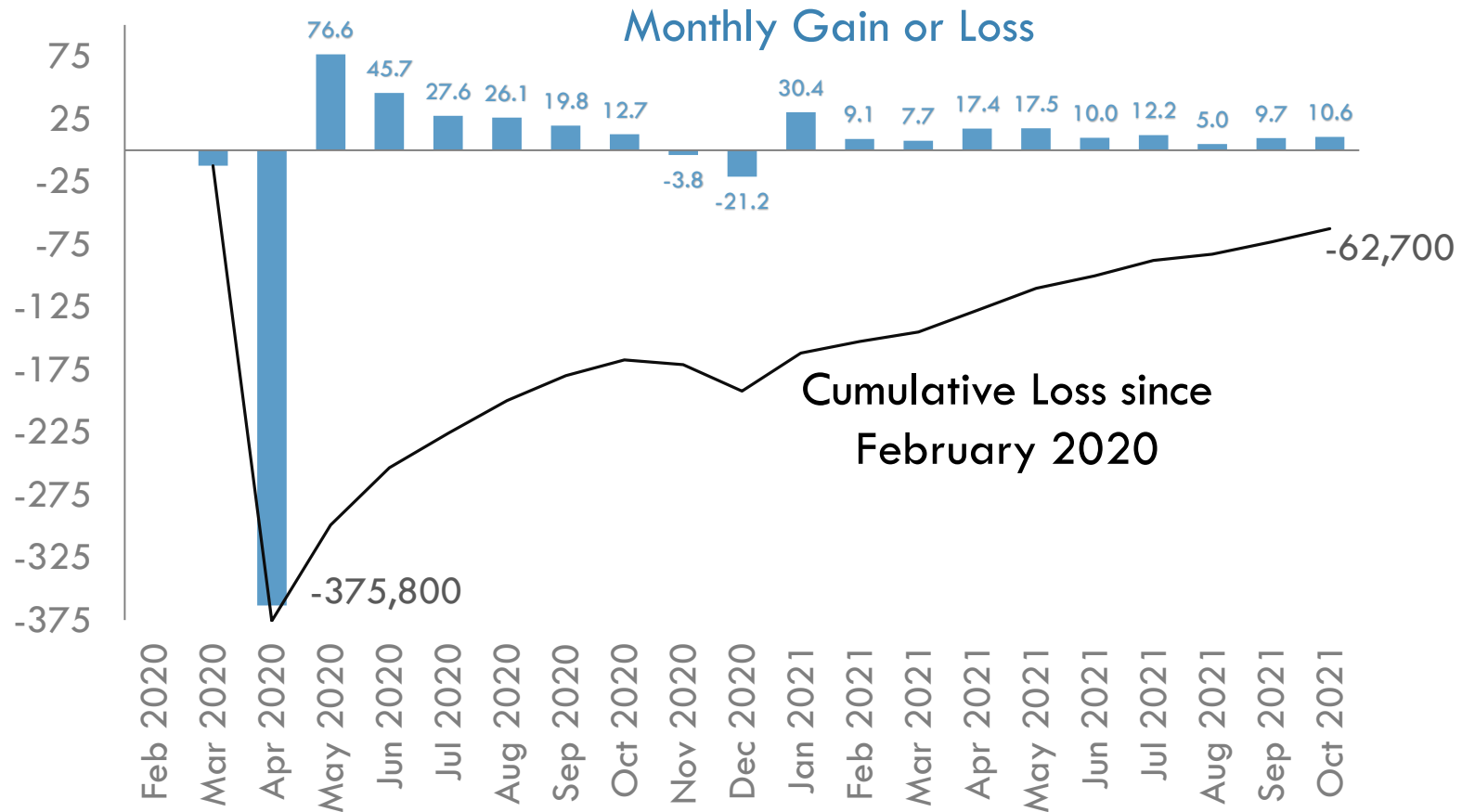
Unemployment rates



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

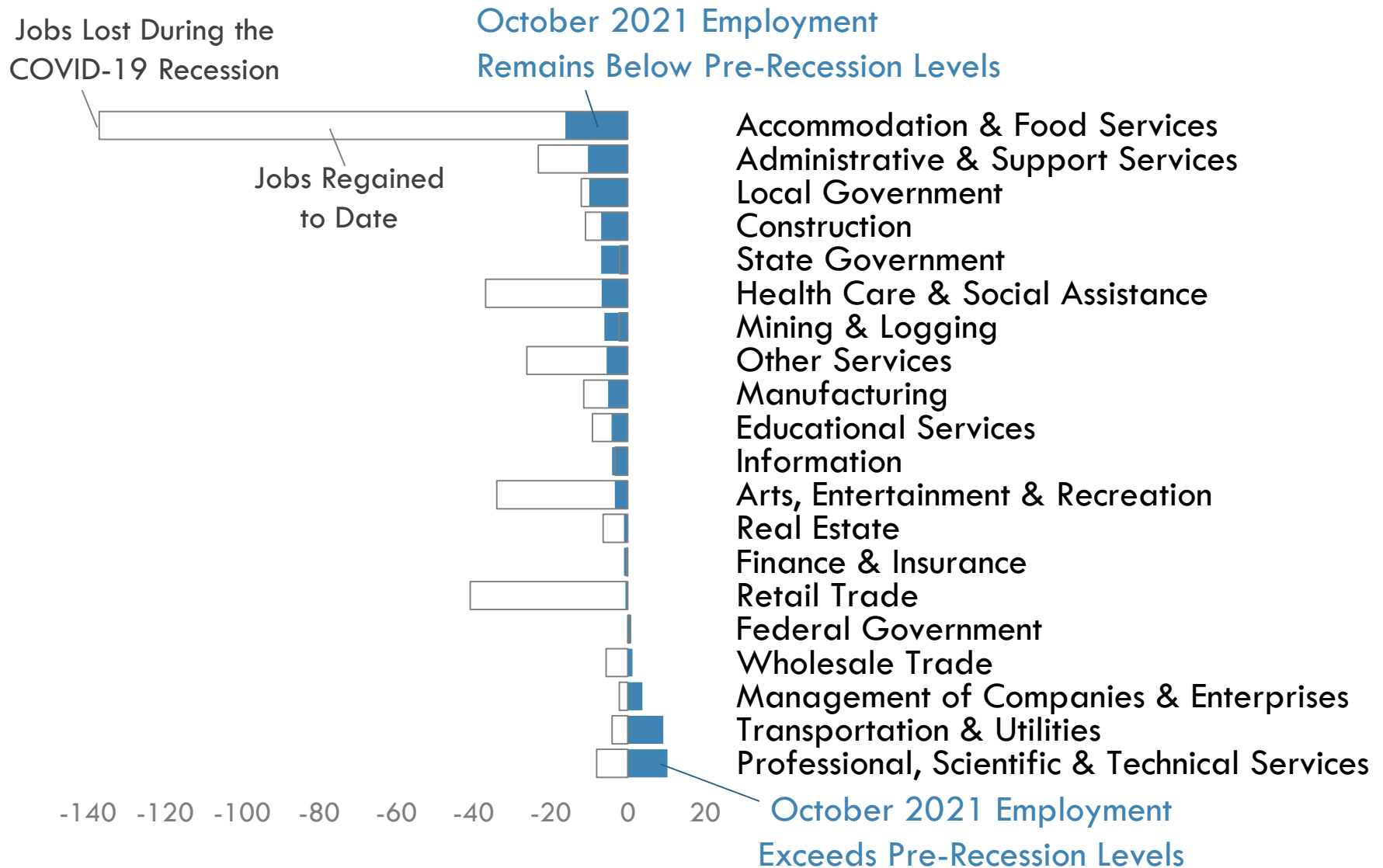
Colorado has regained 83.3 percent of jobs lost since the pandemic began

Change in Colorado Employment
Thousands of Jobs



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

Accommodation & food services leads job gains in 2021, still down 16,200 jobs

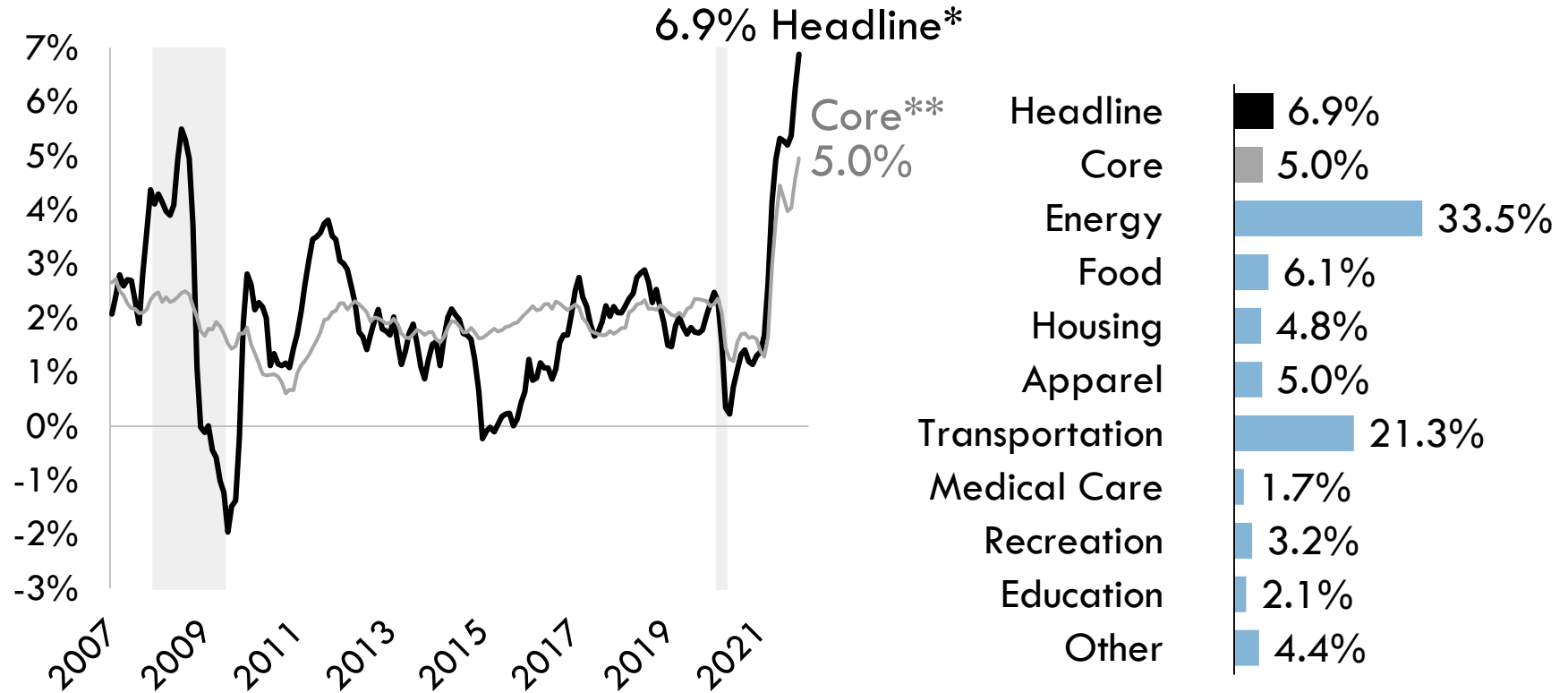


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

Inflationary pressure continues

U.S. City Average CPI-U Inflation
Year-over-Year Change in Prices

Selected Components, November 2021



Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

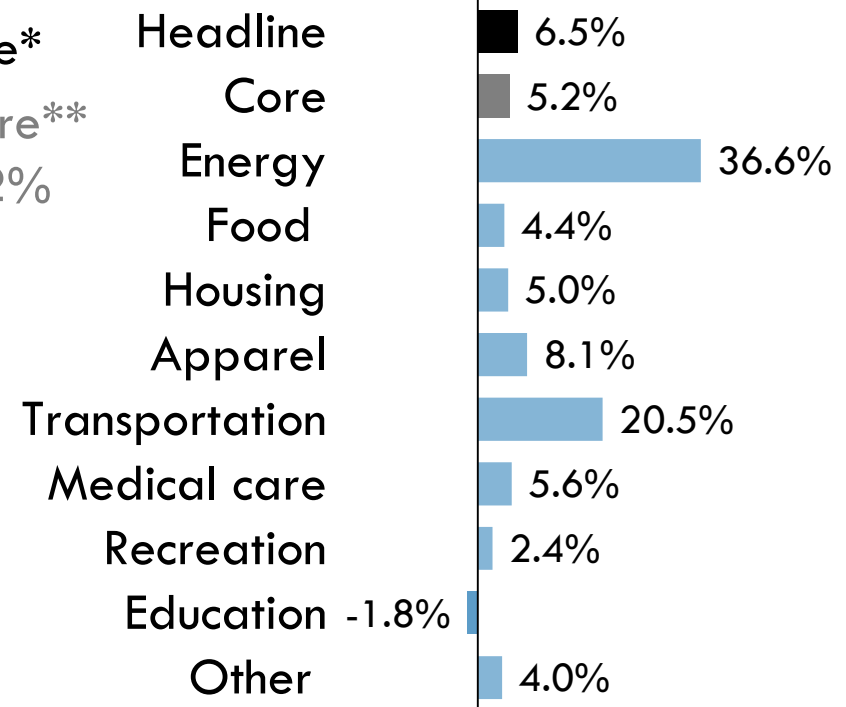
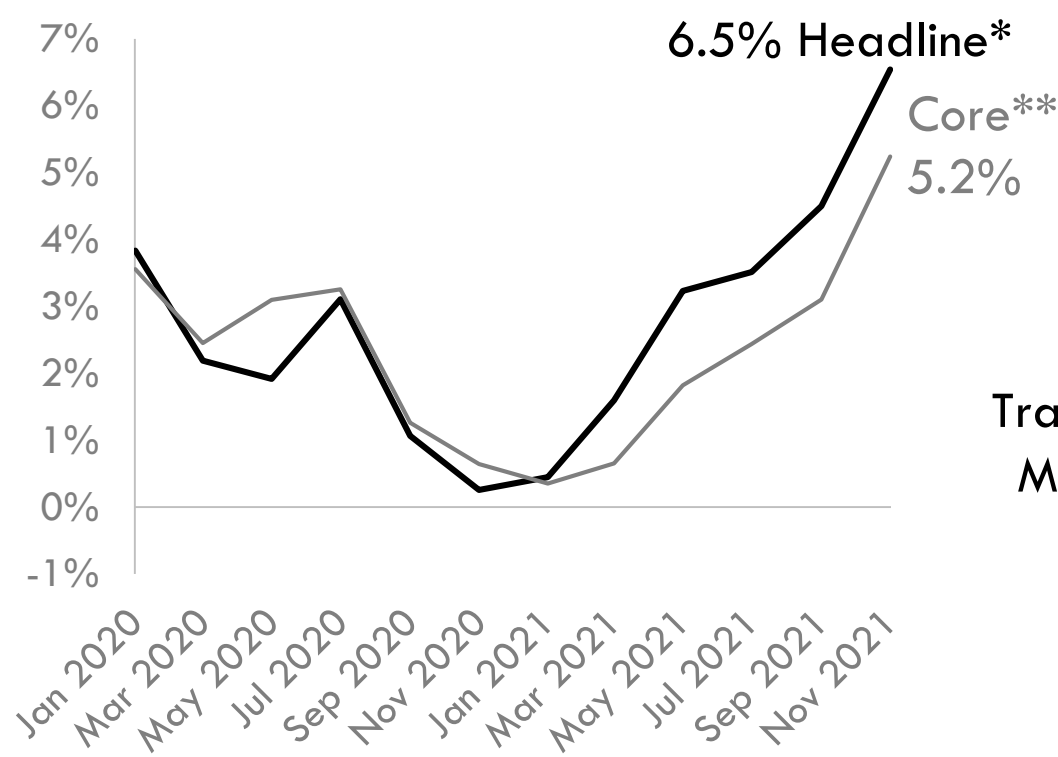
*Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Inflation also on the rise in Colorado

Denver-Aurora-Lakewood Consumer Price Index (CPI-U) Inflation

Selected Components, November 2021

Percent Change in Prices, Year-over-Year



Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

*Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Pandemic remains in the driver's seat

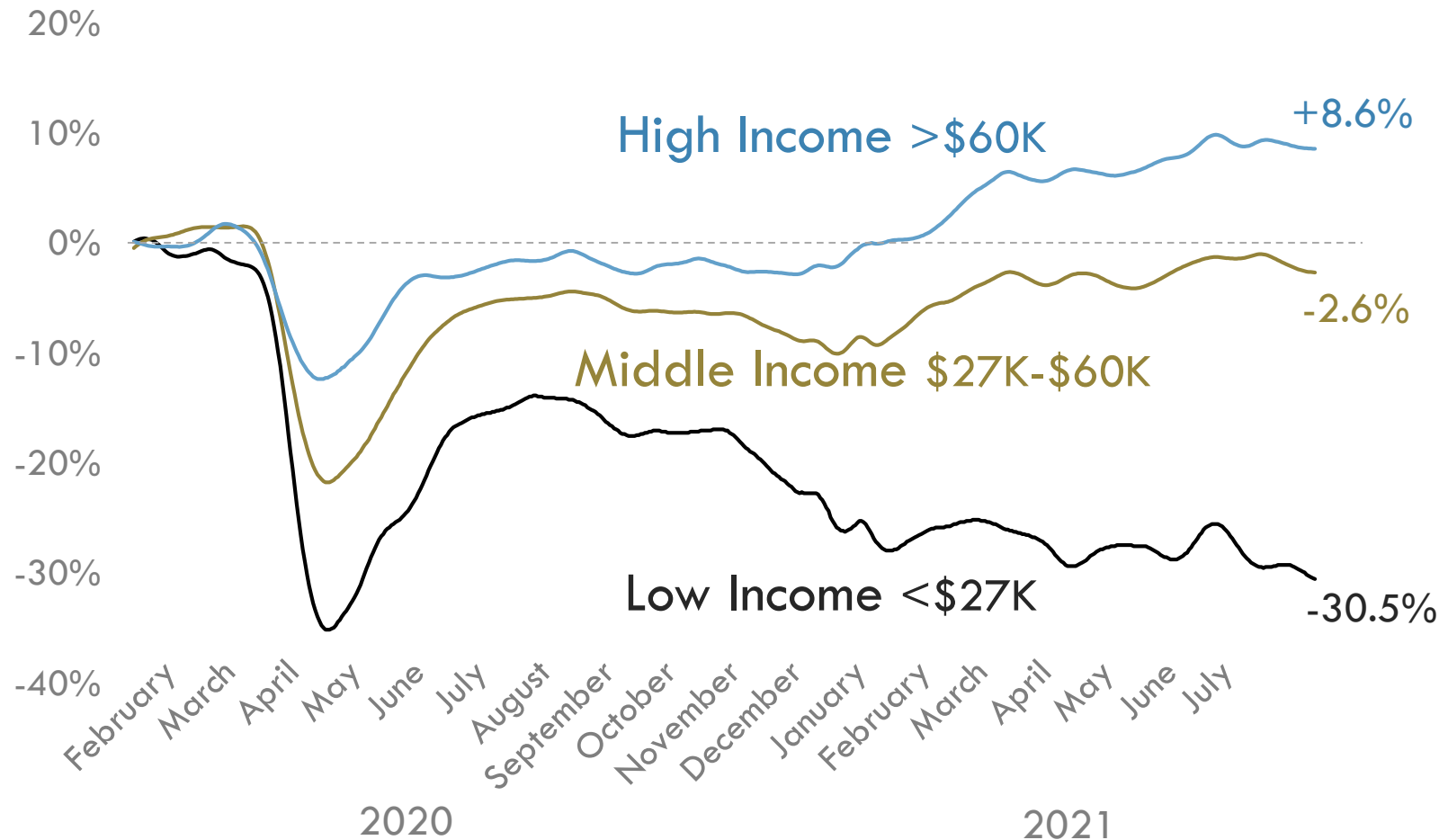
- Ongoing uncertainty from the course of the COVID-19 pandemic, particularly with growth of the omicron variant
- **Downside:** continued supply and demand mismatches, inflation and accelerated monetary policy, waning fiscal stimulus
- **Upside:** passage of Build Back Better spending package, with positive consequences for spending, employment, incomes, and tax revenues
- Near-term risks appear weighted to the downside

Supplemental Economic Outlook Slides



The gap between low- and high-wage workers persists

Percent change in Colorado employment since January 2020

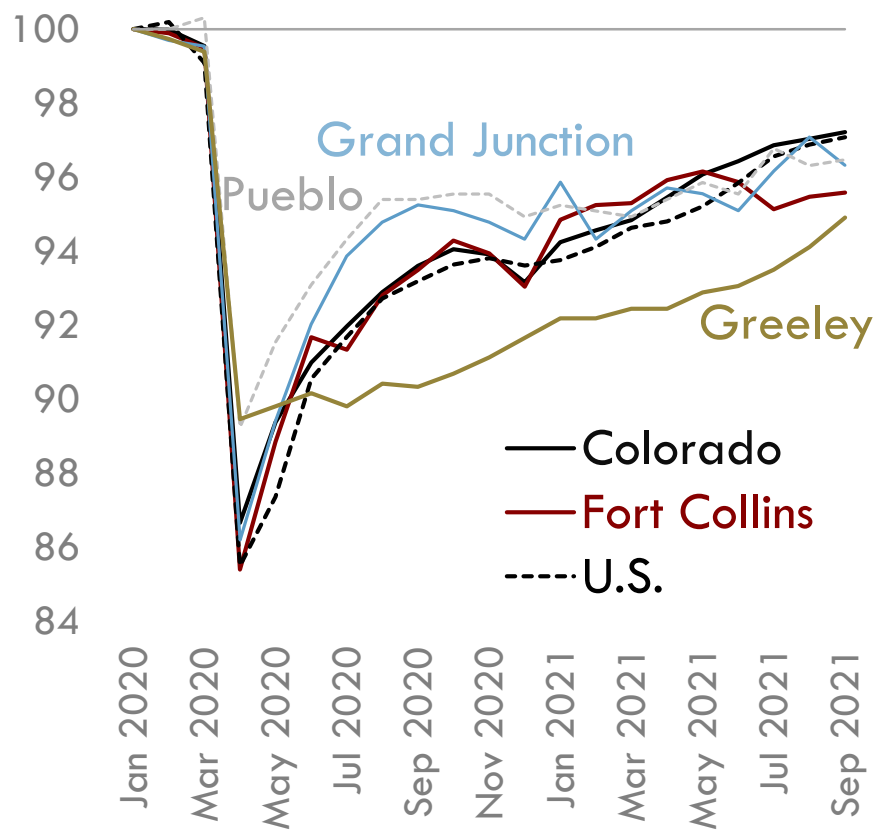
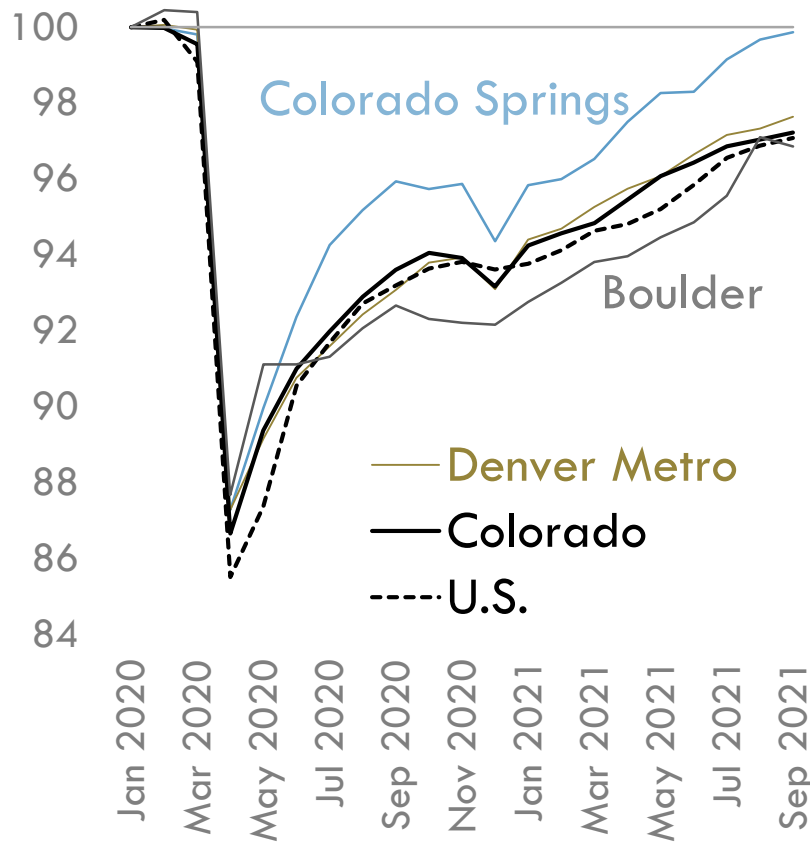


Source: Opportunity Insights. More interactive charts available: www.tracktherecovery.org

Employment recovery varies across the state

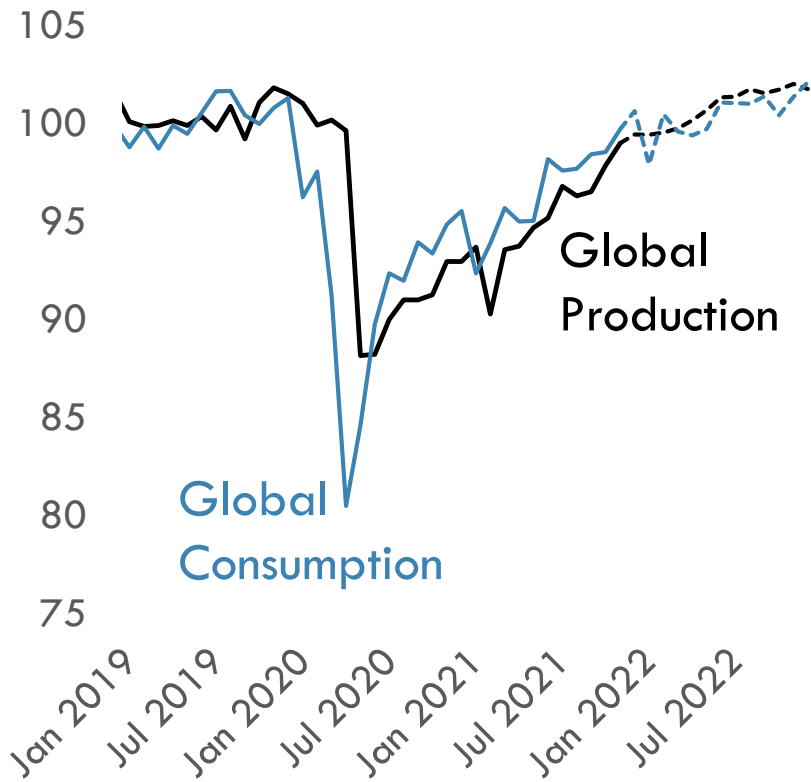
Employment Growth Since January 2020

January 2020 = 100



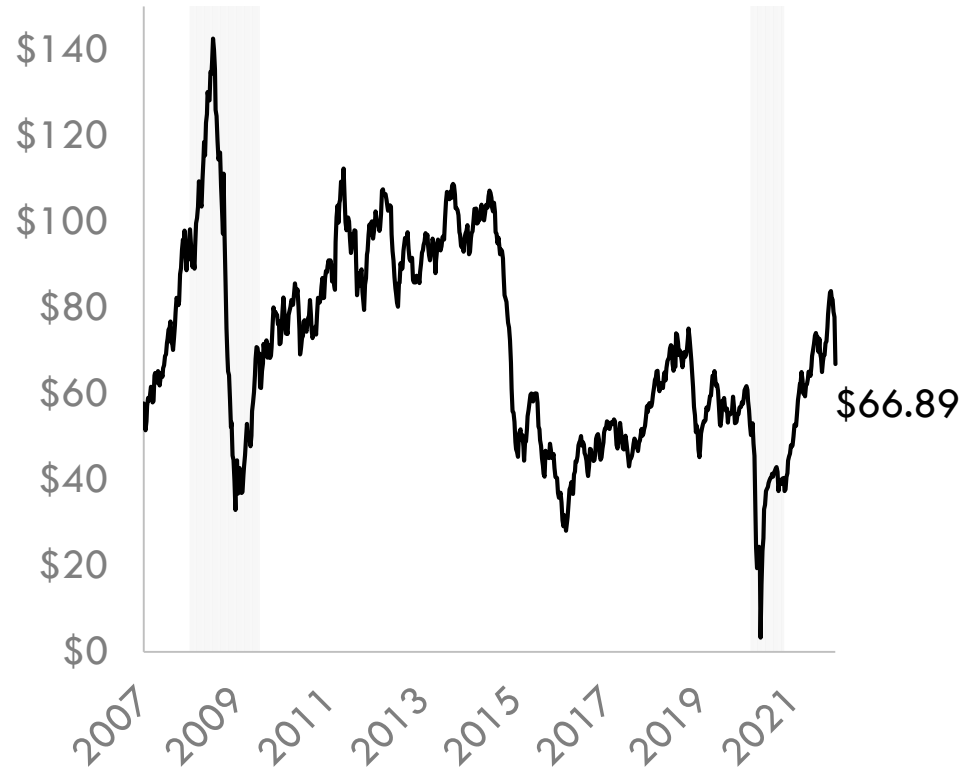
Energy market dynamics

Global Petroleum Supply and Demand
Million Barrels Per Day



Source: U.S. Energy Information Administration. Short-Term Energy Outlook, December 2021.

Crude Oil Price, West Texas Intermediate
Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted.

General Fund Budget Outlook

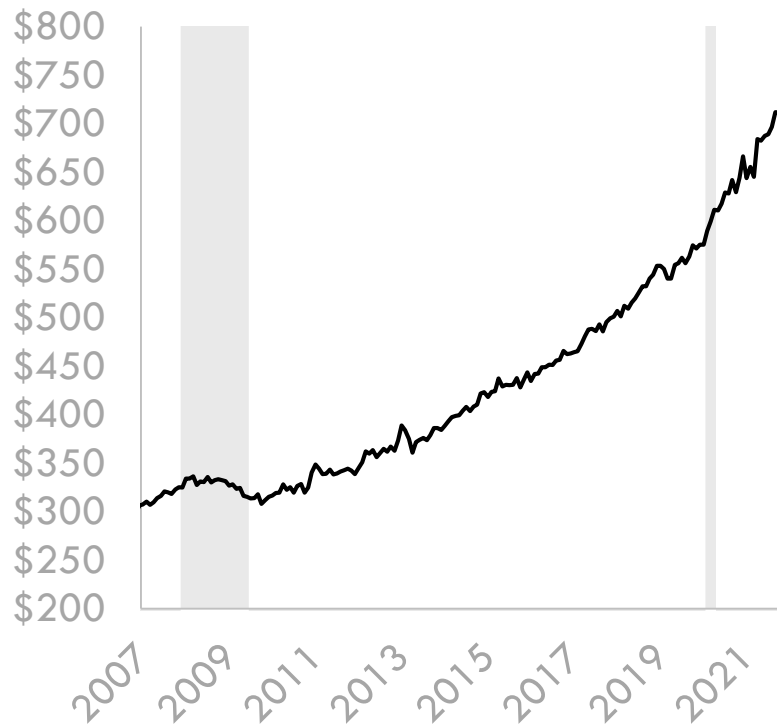


The largest General Fund streams remain strong

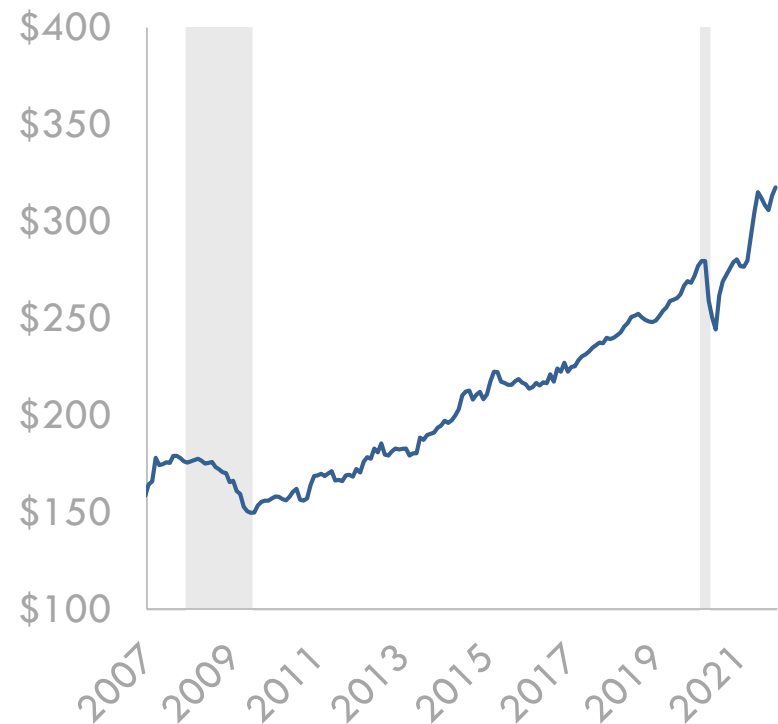
Monthly General Fund Collections from Selected Sources

Dollars in Millions

Individual Income Tax Withholding



Sales Tax Collections



Source: Colorado Office of the State Controller with Legislative Council Staff seasonal adjustments. Data shown as three-month moving averages through November 2021. November 2021 data are preliminary.

General Fund revenue continues to surprise on the upside on strong goods consumption and income growth

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

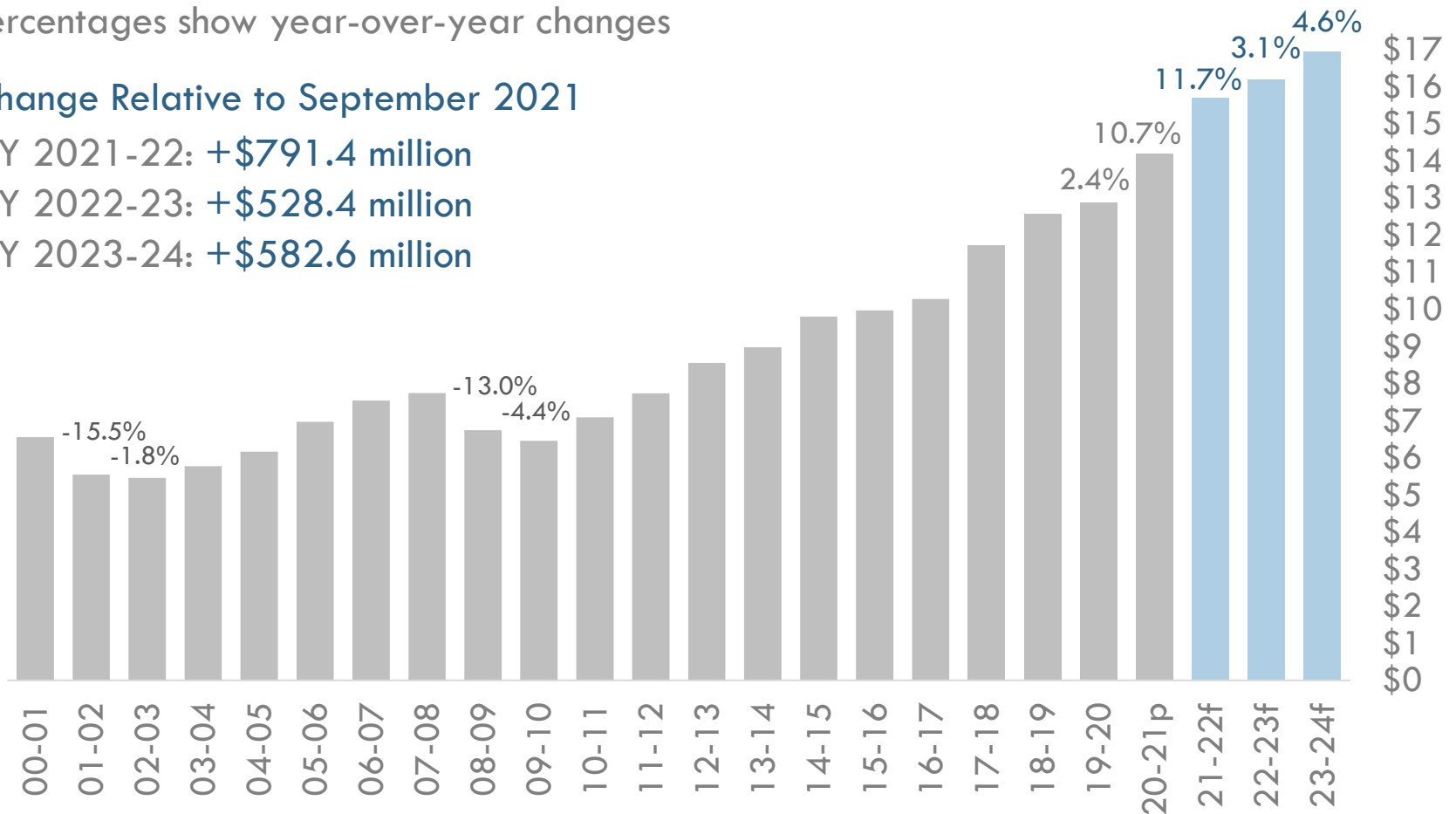
Change Relative to September 2021

FY 2021-22: +\$791.4 million

FY 2022-23: +\$528.4 million

FY 2023-24: +\$582.6 million

December 2021
Expectations



Source: Colorado Office of the State Controller and Legislative Council Staff December 2021 forecast.

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

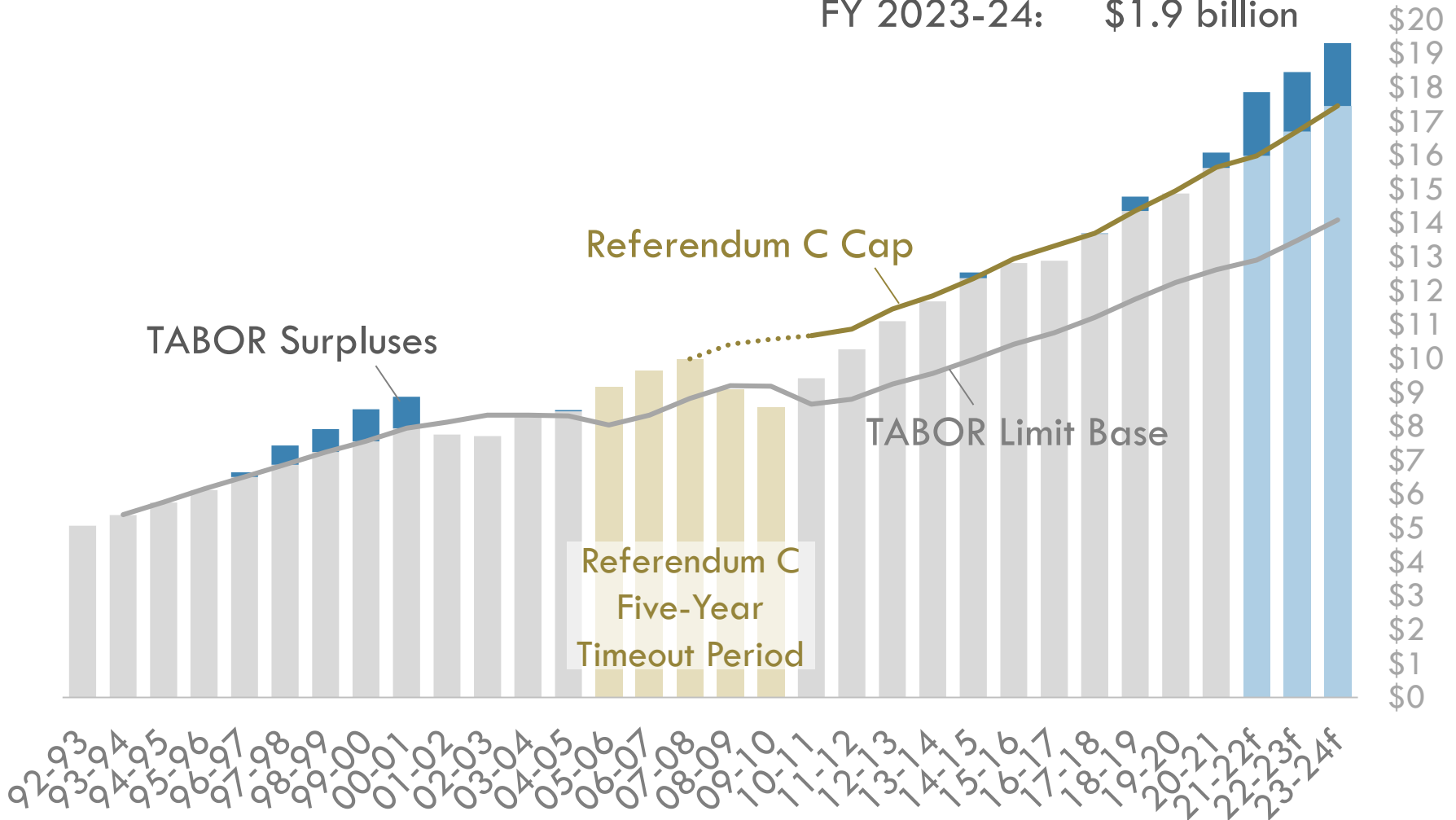
Revenue Above the Ref C Cap

FY 2020-21: \$453.6 million

FY 2021-22: \$1.9 billion

FY 2022-23: \$1.8 billion

FY 2023-24: \$1.9 billion



Source: Colorado Office of the State Controller and Legislative Council Staff December 2021 forecast.

Inflation Risk & the Budget

Inflation will impact near-term budget pressures

- School finance
- State employee wage pressures
- Construction costs

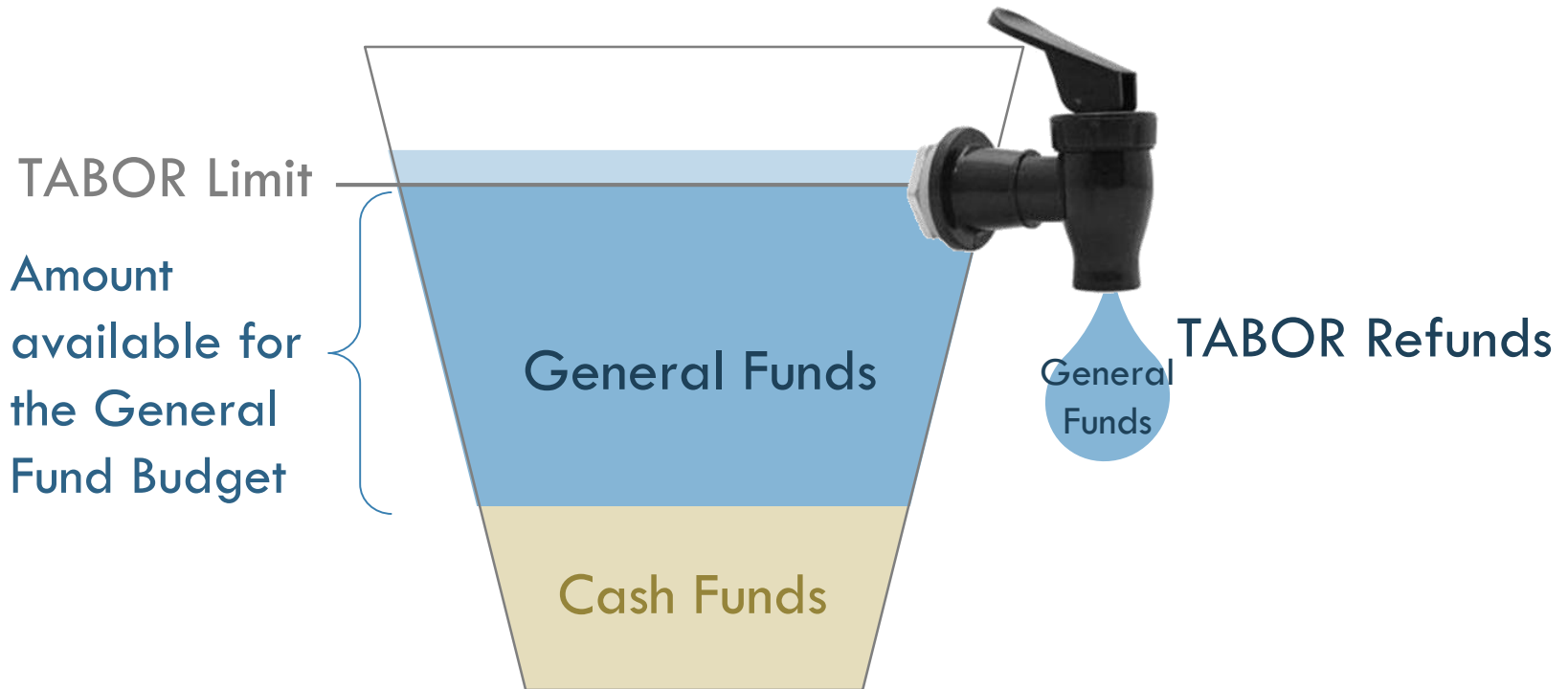
Lag in higher Referendum C cap growth

Inflation Forecast	Impact Referendum C Cap for
2021: 3.7%	FY 2022-23
2022: 3.4%	FY 2023-24
2023: 1.8%	FY 2024-25

1% higher inflation = ~\$160–\$170 million in budget flexibility

TABOR Refunds are refunded from General Funds

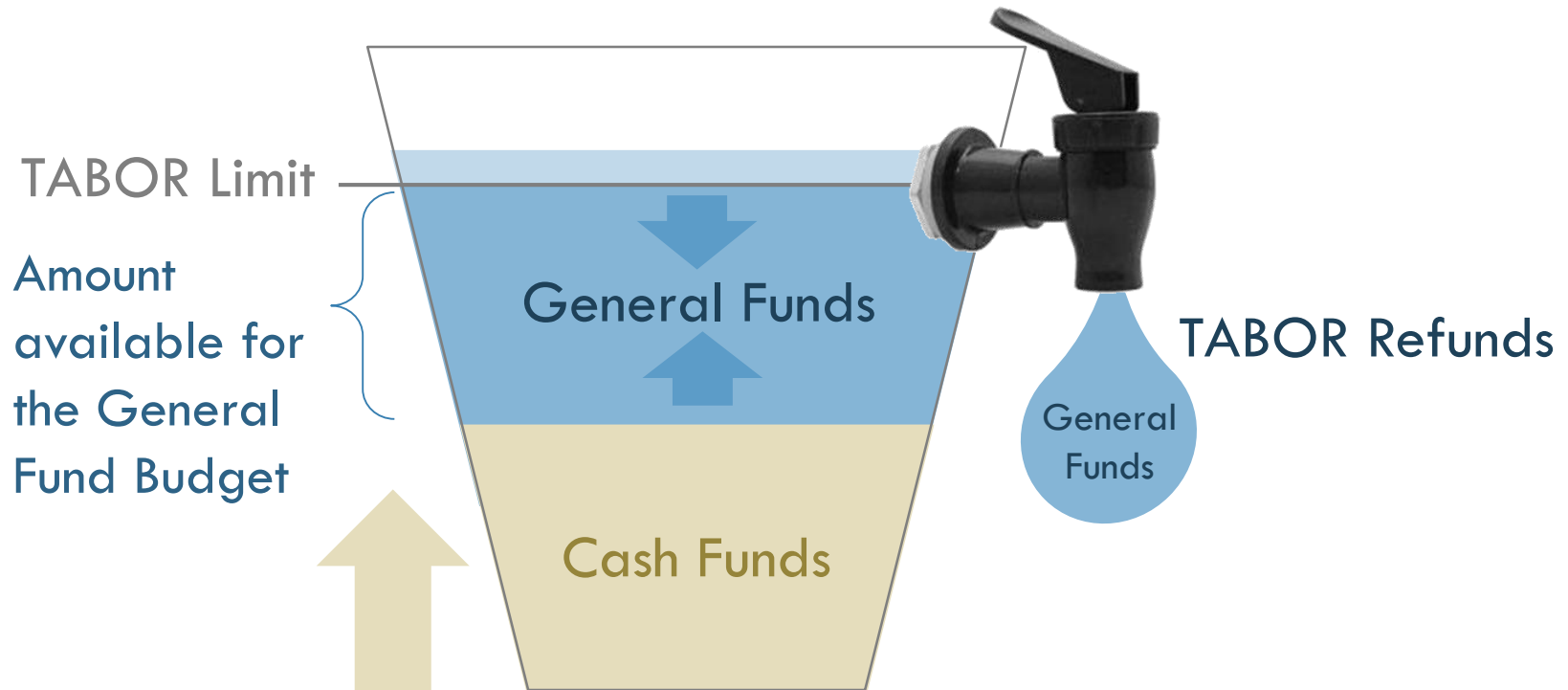
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

TABOR Refunds are refunded from General Funds

In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

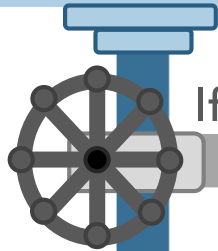
TABOR Refund Obligation



TABOR Refund Mechanisms

#1

Reimburse Local Gov'ts for
Property Tax Exemptions
Up to ~\$165 million



If ~\$295 million+

#2

Temporary
Income Tax Rate Reduction
Next ~\$130 million
If the refund is large enough



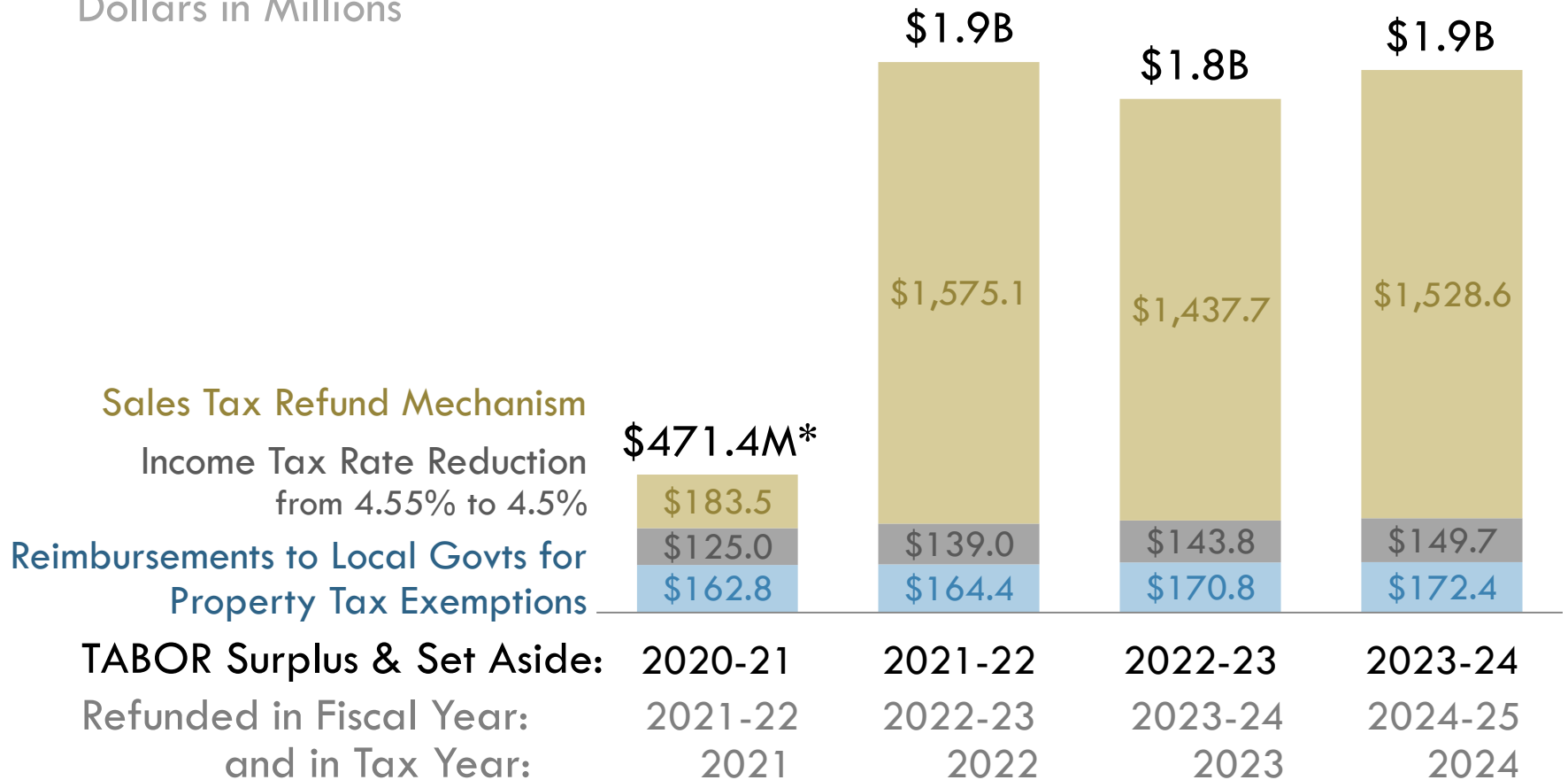
#3

Sales Tax Refund
Any remaining

TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions



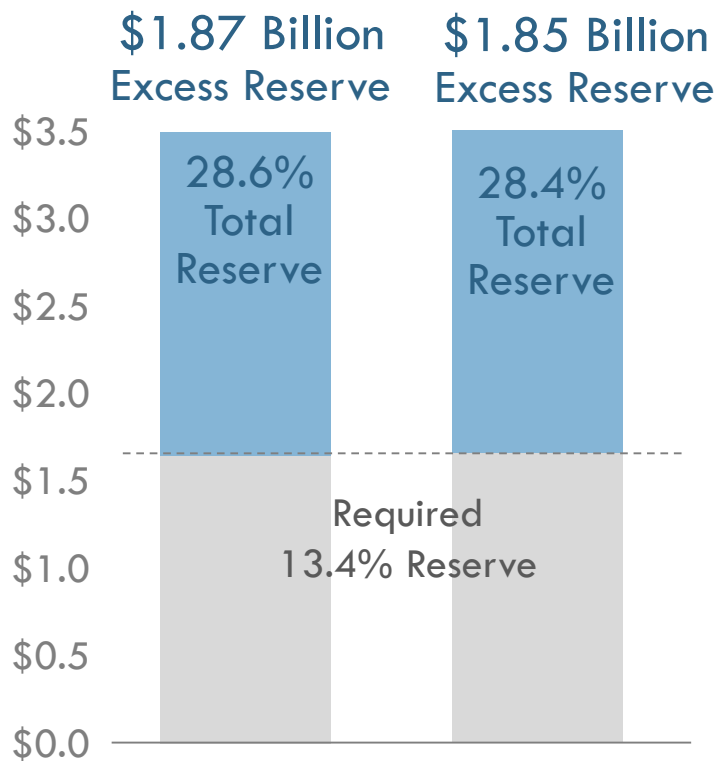
Source: Colorado Office of the State Controller and Legislative Council Staff December 2021 forecast.

*The refund from the FY 2020-21 surplus is adjusted for \$17.8 million in under-refunds from prior years.

Current Year | FY 2021-22 General Fund Budget Situation

September Forecast December Forecast

-\$21.2 million change from the September 2021 forecast:



Revenue expectations +\$791.4 million
 TABOR set-aside +\$846.2 million on higher revenue expectations

Beginning balance +\$17.1 million with corrections for FY 2020-21

Net transfers from the GF increased \$29.9 million, reflecting revenue forecast changes

GF appropriations \$14.5 million higher with updated information

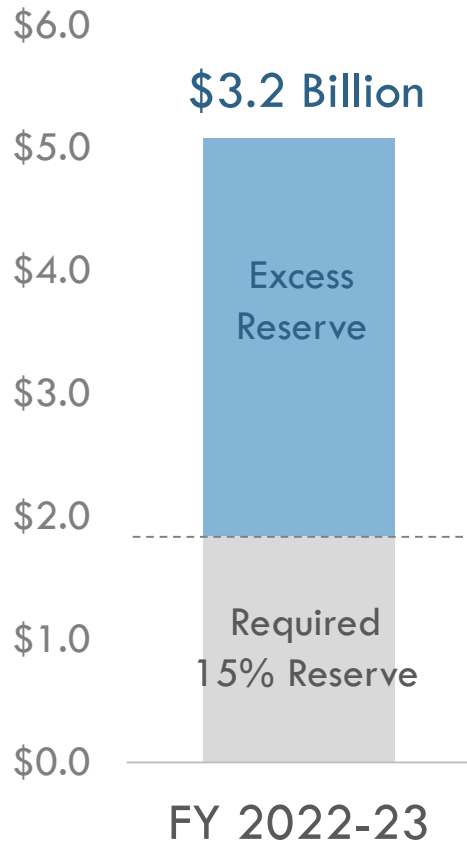
Source: Legislative Council Staff forecasts based on current law. See Table 2 in the December 2021 forecast for more information.

Budget Year | FY 2022-23 Budget Outlook

Scenario A: Additional revenue available to spend or save above FY 2021-22 spending levels. Amounts hold FY 2021-22 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligation, and the 15% reserve requirement.

Scenario A:

Hold appropriations constant
at FY 2021-22 levels



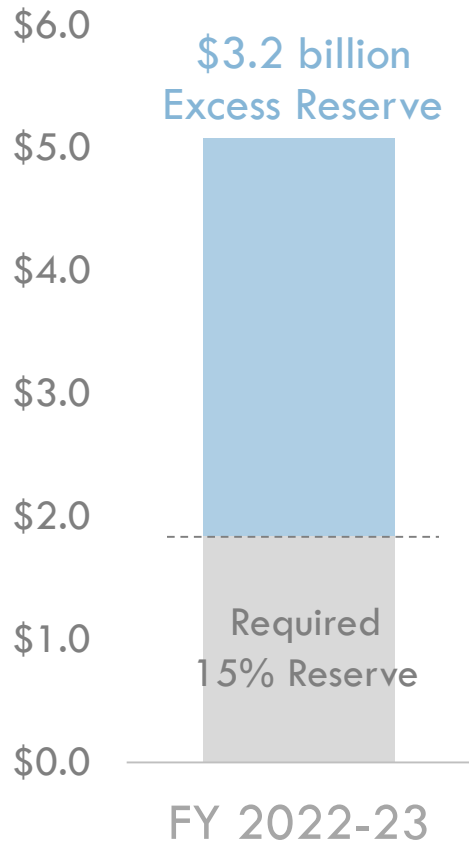
Considerations

- Amounts do not account for caseload growth, inflationary, or other budgetary pressures
- Any changes made to the FY 2021-22 budget will impact this amount

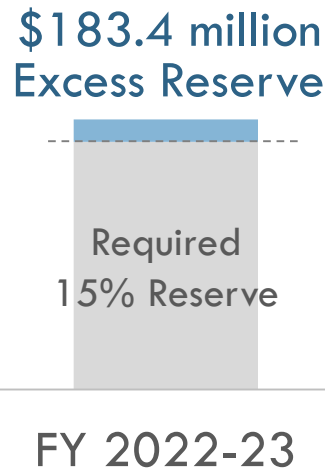
Budget Year | FY 2022-23 Budget Outlook

Scenario B: Assumes appropriations and transfers requested in the Governor's November 1, 2021, budget proposal for FY 2022-23.

Scenario A: Hold Appropriations Constant



Scenario B: Governor's Budget Proposal



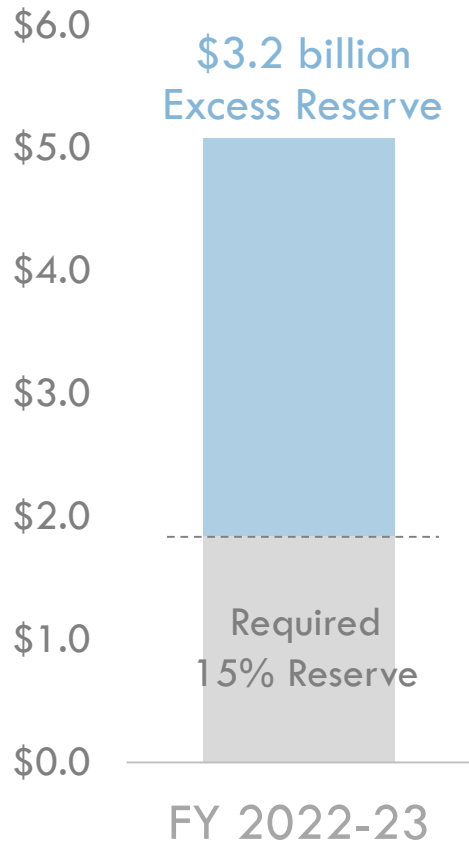
Major Differences from Scenario A:

- \$1.2 billion increase from FY 2021-22 appropriations
- \$1.8 billion in transfers, most of which are one-time

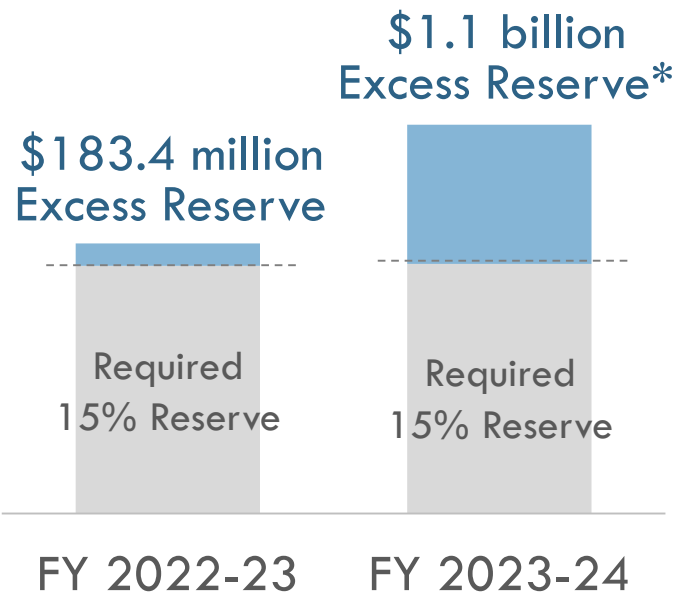
Budget Year & Beyond | FY 2022-23 & FY 2023-24

Scenario B: Assumes appropriations and transfers requested in the Governor's November 1, 2021, budget proposal for FY 2022-23.

Scenario A: Hold Appropriations Constant



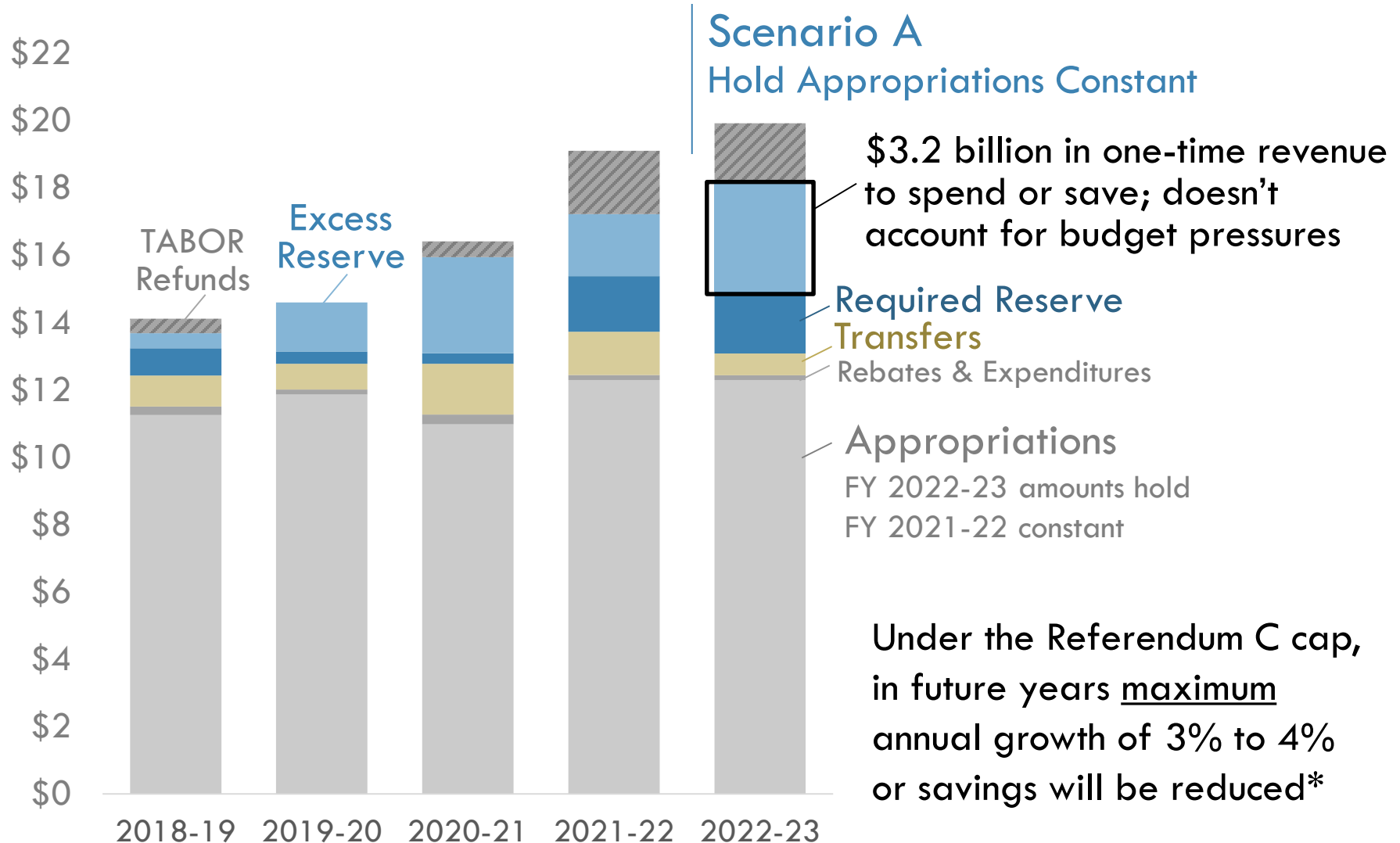
Scenario B: Governor's Budget Proposal



*For FY 2023-24, includes ongoing budget impact of FY 2022-23 decision items in Governor's request only. Does not include other budget pressures, legislation.

General Fund Budget (Spending or Saving)

Dollars in Billions

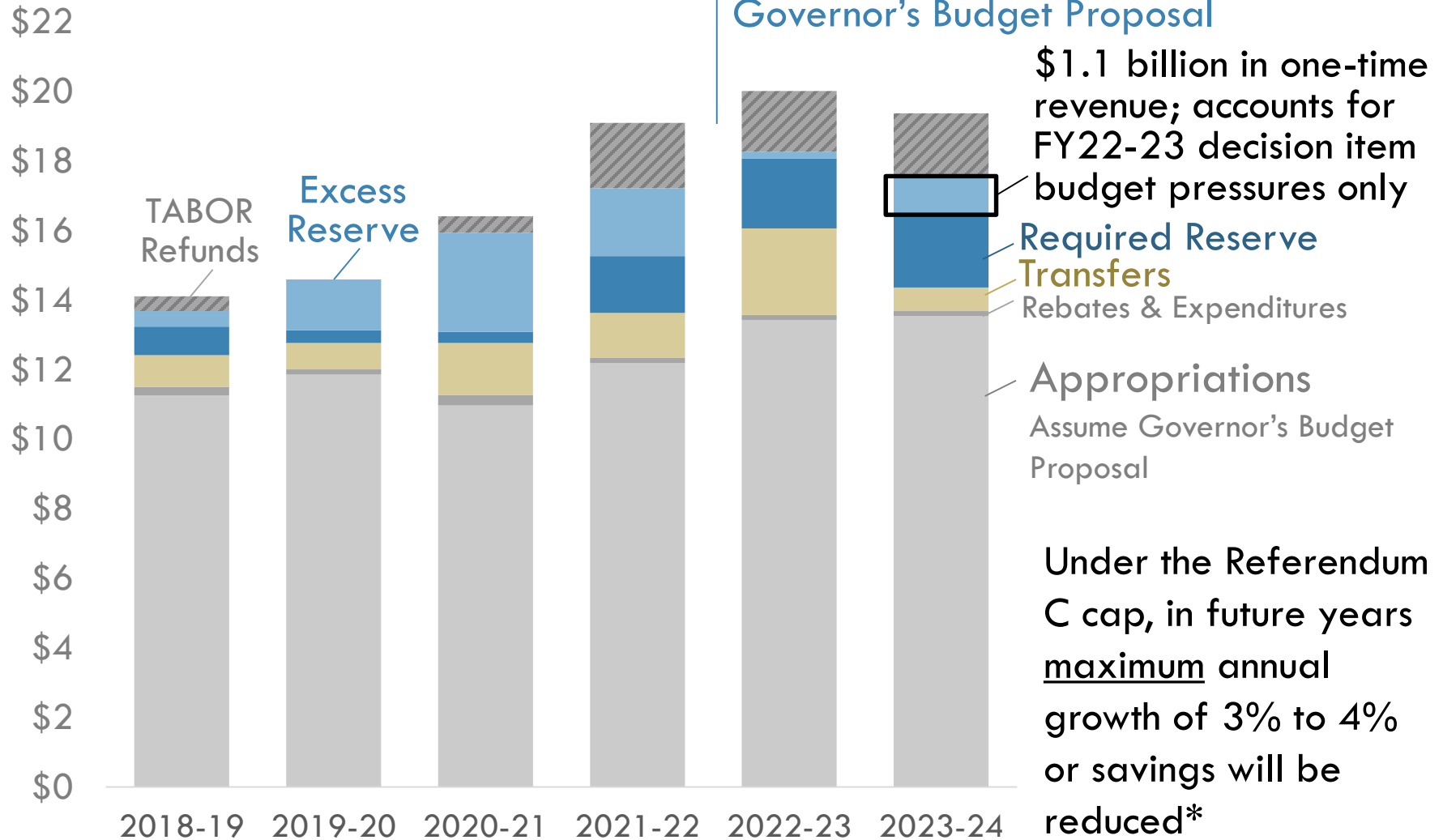


Source: Legislative Council Staff December 2021 forecast.

*Assumes projected population growth and average historical inflation rates.

General Fund Budget (Spending or Saving)

Dollars in Billions

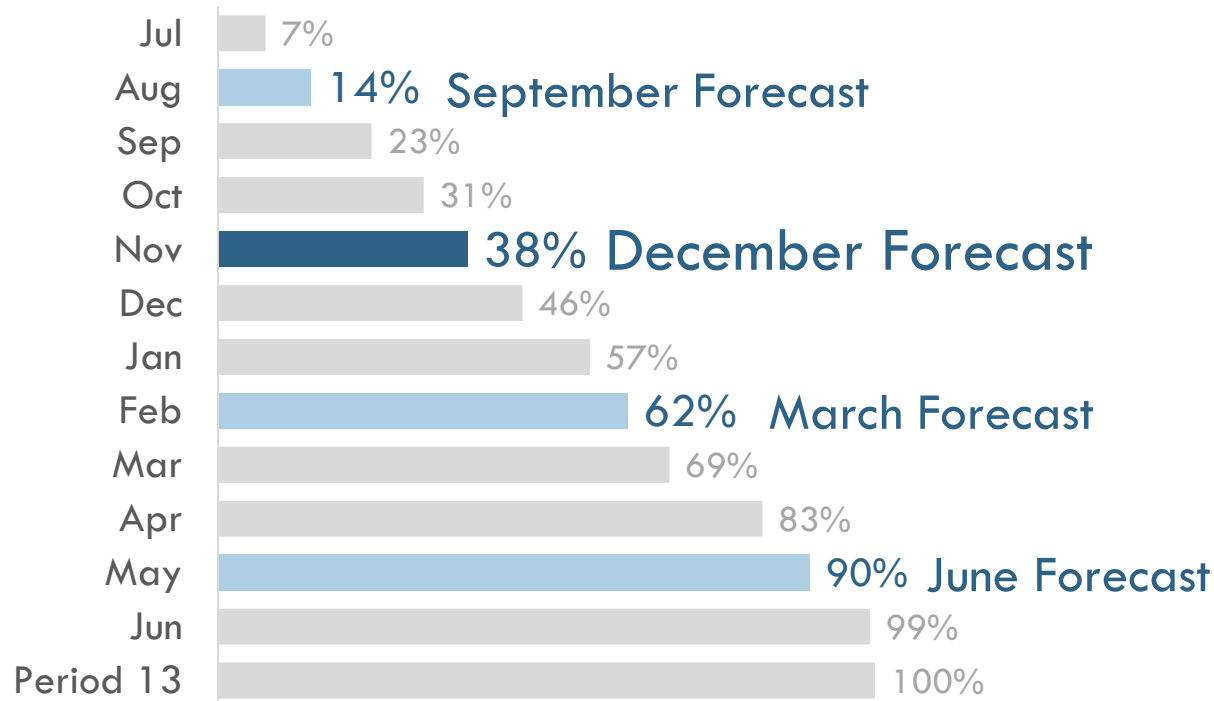


Source: Legislative Council Staff December 2021 forecast.

*Assumes projected population growth and average historical inflation rates.

How much do we know about the current FY 2021-22?

Available General Fund Collections Data
as a Share of Total Fiscal Year Collections*



Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

*Six-year average of actual collections data, FY 2013-14 to FY 2018-19.

Risks to the Forecast

Ongoing forecast risks

- Pandemic's trajectory: Health concerns, supply chain disruptions, labor shortages, inflation
- Evolving tax policy environment
- Additional federal stimulus?

Risks to the budget outlook

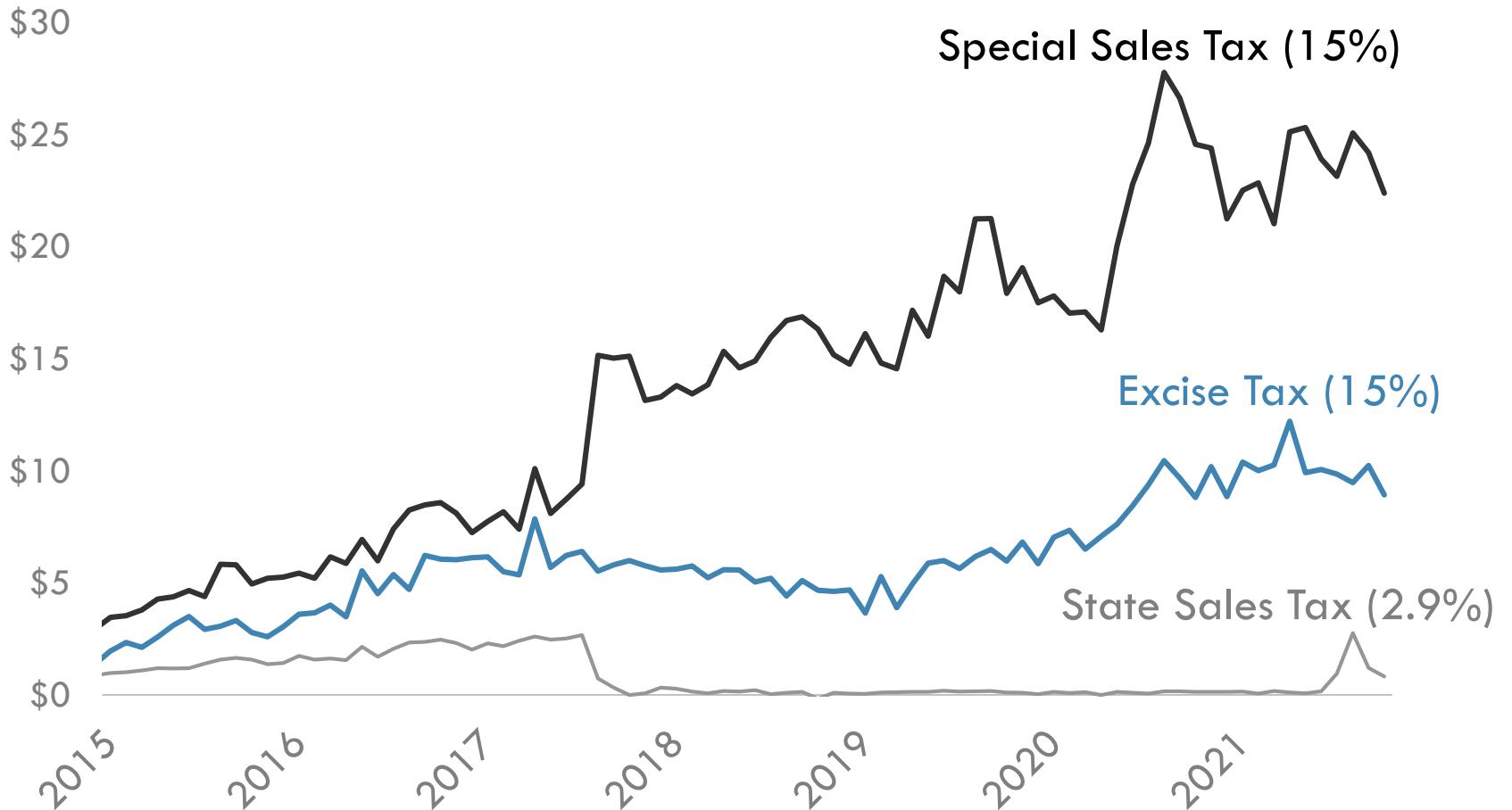
- Revenue will be constrained by the Referendum C cap throughout the forecast period, capping General Fund budget growth
- General Fund forecast error expected to be absorbed by TABOR refunds
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure
- Inflation risk to Referendum C cap and budget pressures

Supplemental Cash Funds Forecast Slides



Retail Marijuana Revenue

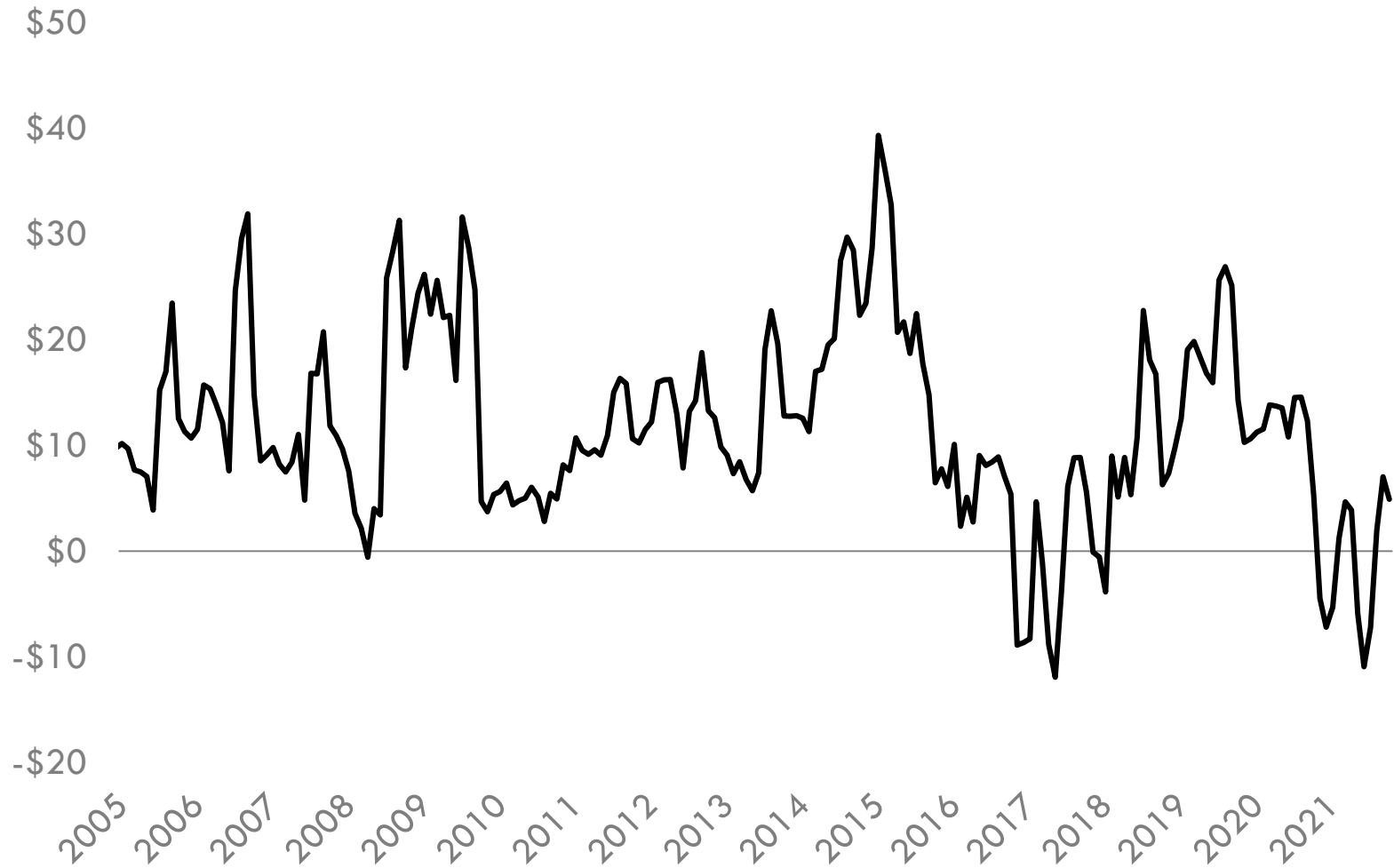
Monthly Collections, Millions of Dollars



Source: Colorado Office of the State Controller. Data through October 2021.

Oil and Gas Severance Tax Revenue

Monthly Collections, Millions of Dollars, Three-Month Moving Averages



Source: Colorado Office of the State Controller. Data through October 2021.

K-12 Enrollment



K-12 Public School Enrollment

Full-Time Equivalent (FTE) Students

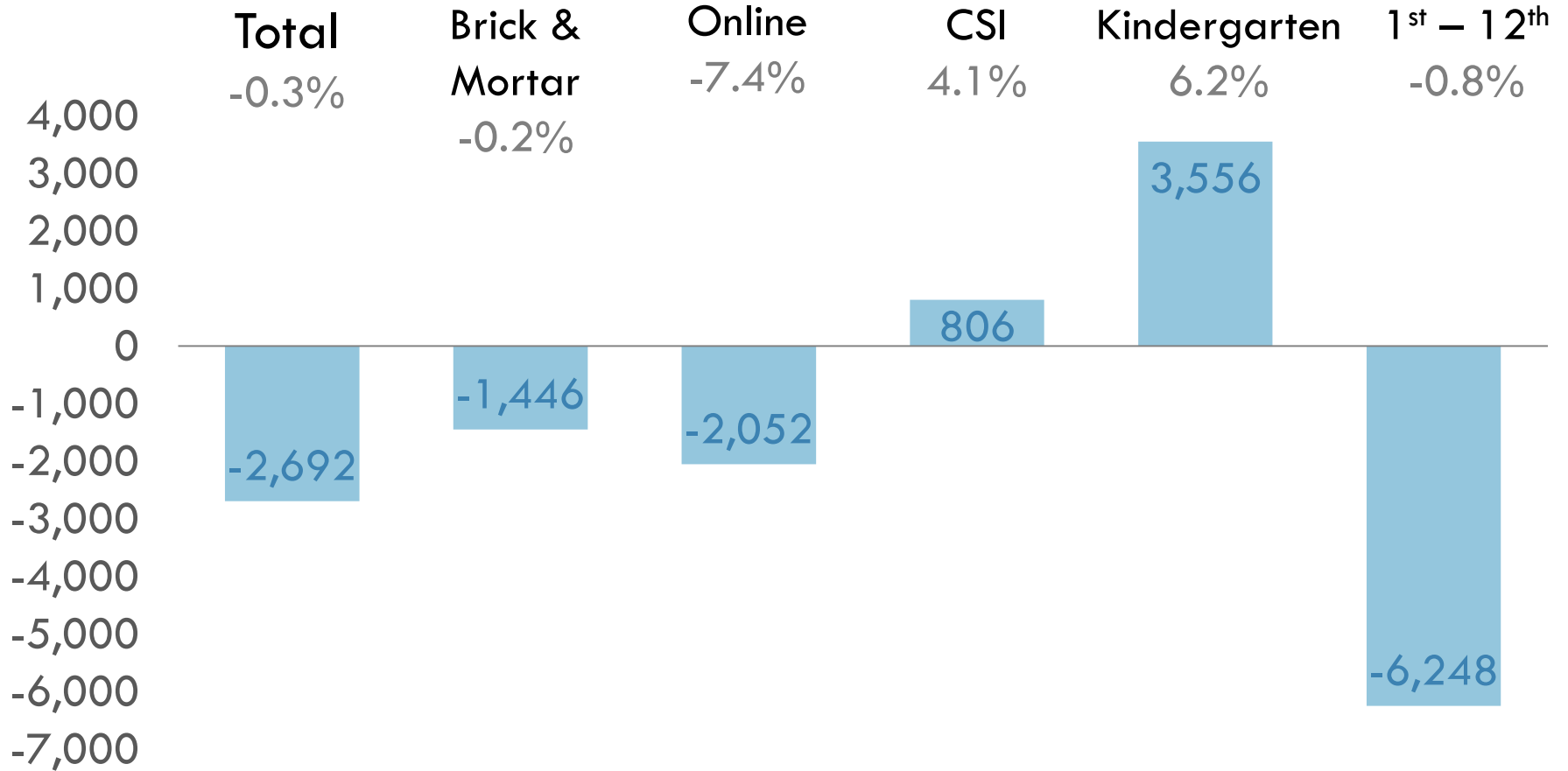
Region	Actual 2021-22	Percent Change
Colorado Springs	122,564	0.1%
Eastern Plains	25,083	-5.2%
Metro Denver	476,452	-0.7%
Mountain	24,578	1.1%
Northern	91,802	2.4%
Pueblo	31,994	-0.6%
San Luis Valley	7,039	-1.3%
Southwest Mountain	13,627	-6.7%
Western	50,128	1.4%
Statewide Total	843,264	-0.3%

**Decline in 2021-22 Enrollment:
-2,692 FTE**

**-22,596 FTE (-2.6%) less
than forecast last year**

Actual Change in 2021-22 Enrollment

Year-over-Year



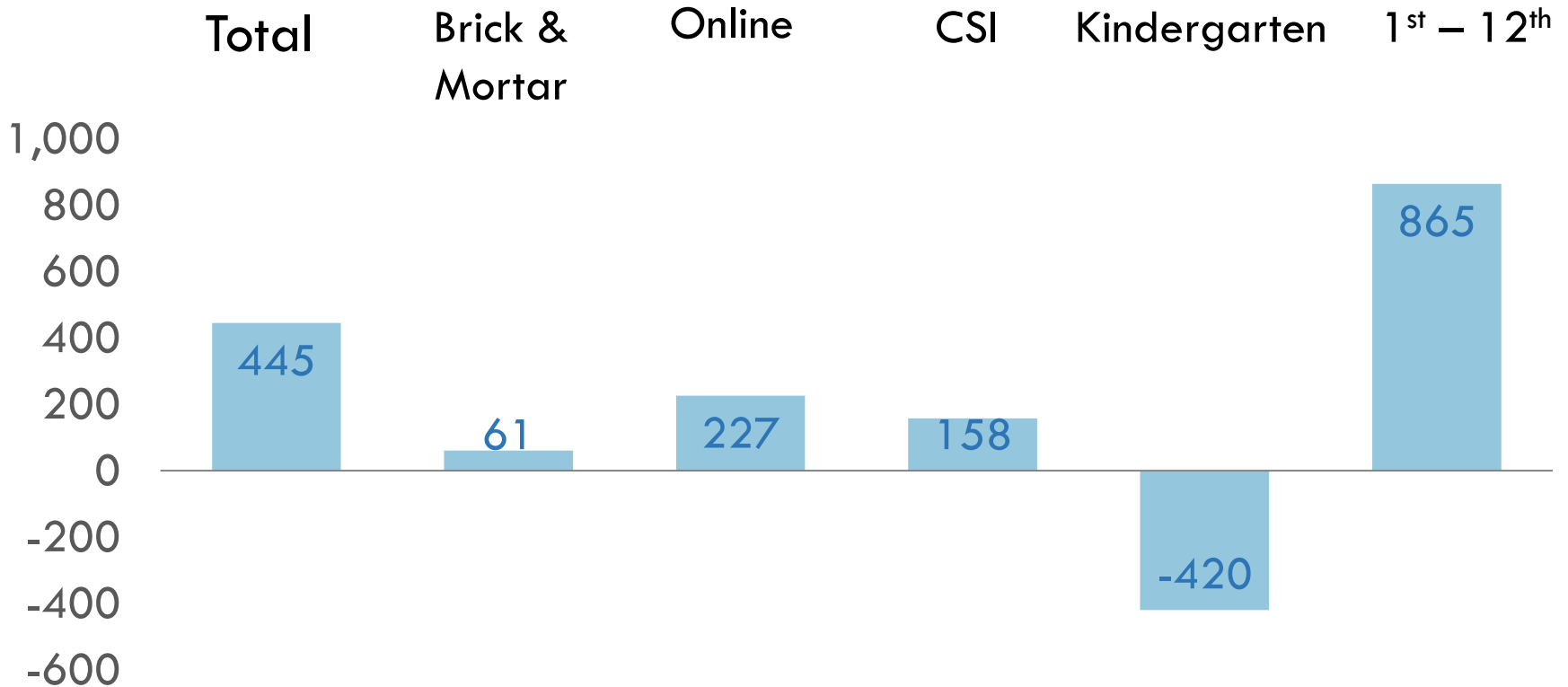
K-12 Public School Enrollment

Full-Time Equivalent (FTE) Students

Region	Actual 2021-22	Percent Change	Estimated 2022-23	Percent Change	Estimated 2023-24	Percent Change	Average Growth*
Colorado Springs	122,564	0.1%	125,456	2.4%	125,937	0.4%	1.36%
Eastern Plains	25,083	-5.2%	25,432	1.4%	25,688	1.0%	1.19%
Metro Denver	476,452	-0.7%	472,635	-0.8%	470,747	-0.4%	-0.60%
Mountain	24,578	1.1%	24,657	0.3%	24,685	0.1%	0.22%
Northern	91,802	2.4%	92,702	1.0%	93,576	0.9%	0.96%
Pueblo	31,994	-0.6%	31,889	-0.3%	31,694	-0.6%	-0.47%
San Luis Valley	7,039	-1.3%	7,103	0.9%	7,156	0.7%	0.82%
Southwest Mountain	13,627	-6.7%	13,566	-0.4%	13,540	-0.2%	-0.32%
Western	50,128	1.4%	50,270	0.3%	50,264	0.0%	0.14%
Statewide Total	843,264	-0.3%	843,709	0.1%	843,287	-0.1%	0.00%

Projected Change in 2022-23 Enrollment

Year-over-Year



Risks to the K-12 Enrollment Forecast

- Significant upside risk to this forecast
 - COVID-19 uncertainty and its impact on student enrollment decisions
 - Will students return to brick and mortar schools?
 - If so, when?
- Longer-term pressures on enrollment remain
 - Lower birth rates, housing affordability issues, slowing net in-migration

Assessed Values



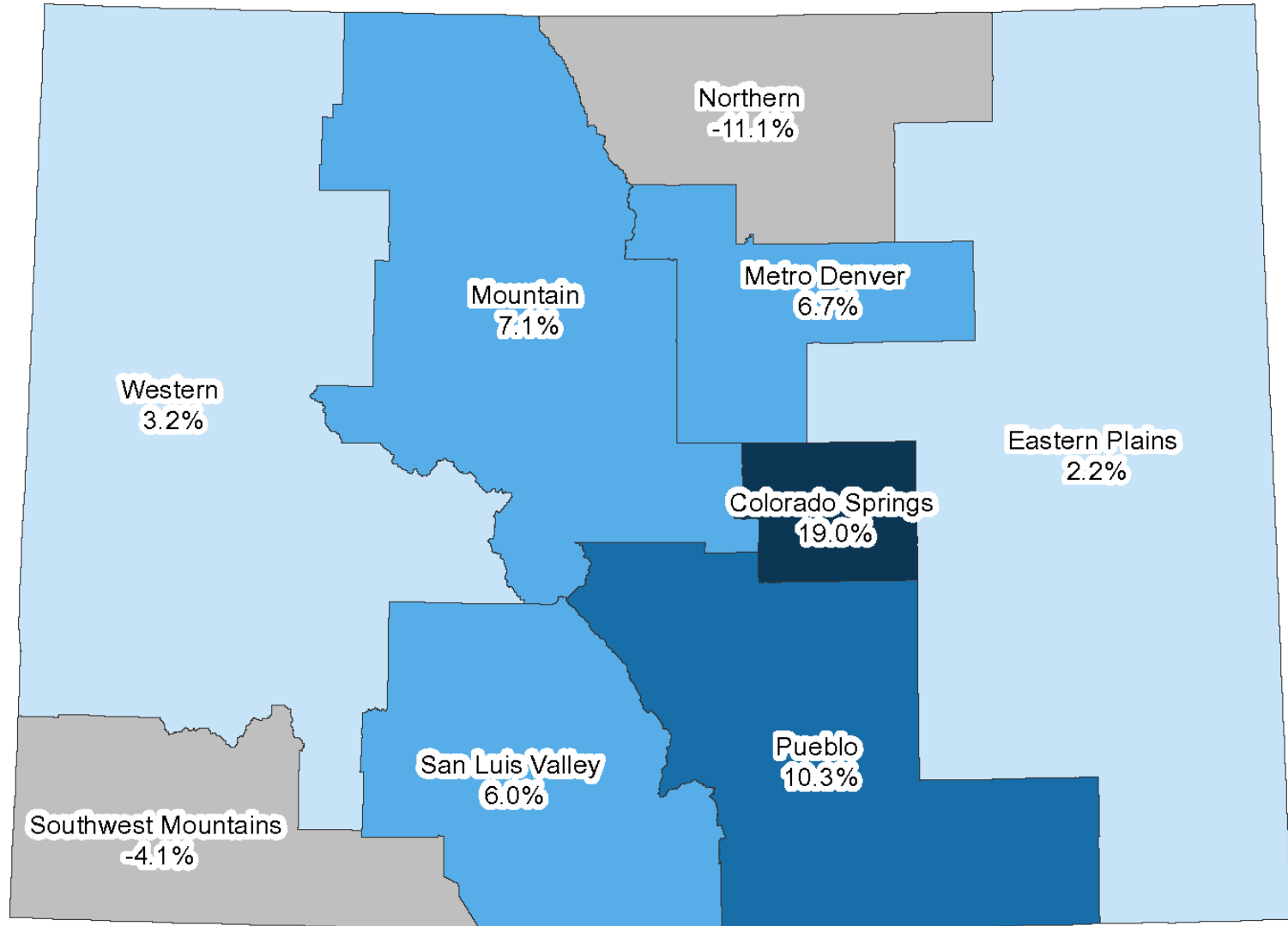
2021: Reassessment Year

Determines school finance for FY 2021-22

- **Total AVs increased 4.4%** from 2020
 - compare to 17.0% in 2019, 10.1% in 2017, 15.0% in 2015
- **Residential AVs increased 11.3%**, in line with forecast
 - Represents appreciation between June 2018 and June 2020
 - Much slower than prior reassessment cycle (17.3%)
- **Nonresidential AVs decreased 1.6%**
 - Forecast anticipated a 9.1% decrease
 - O&G decreased as expected
 - Commercial outperformed our forecast

2021 Reassessment Year

Total Assessed Values: 4.4% growth, year-over-year



2022: Intervening Year

Determines school finance for FY 2022-23

- Total AVs will increase 1.3% from 2021
- Intervening year AV changes limited
 - O&G, mines, state assessed, new construction
- Incorporates the impact of SB 21-293
 - RAR falls to 6.95%, or 6.80% for multifamily
 - NRAR falls to 26.40% for agriculture and renewable energy

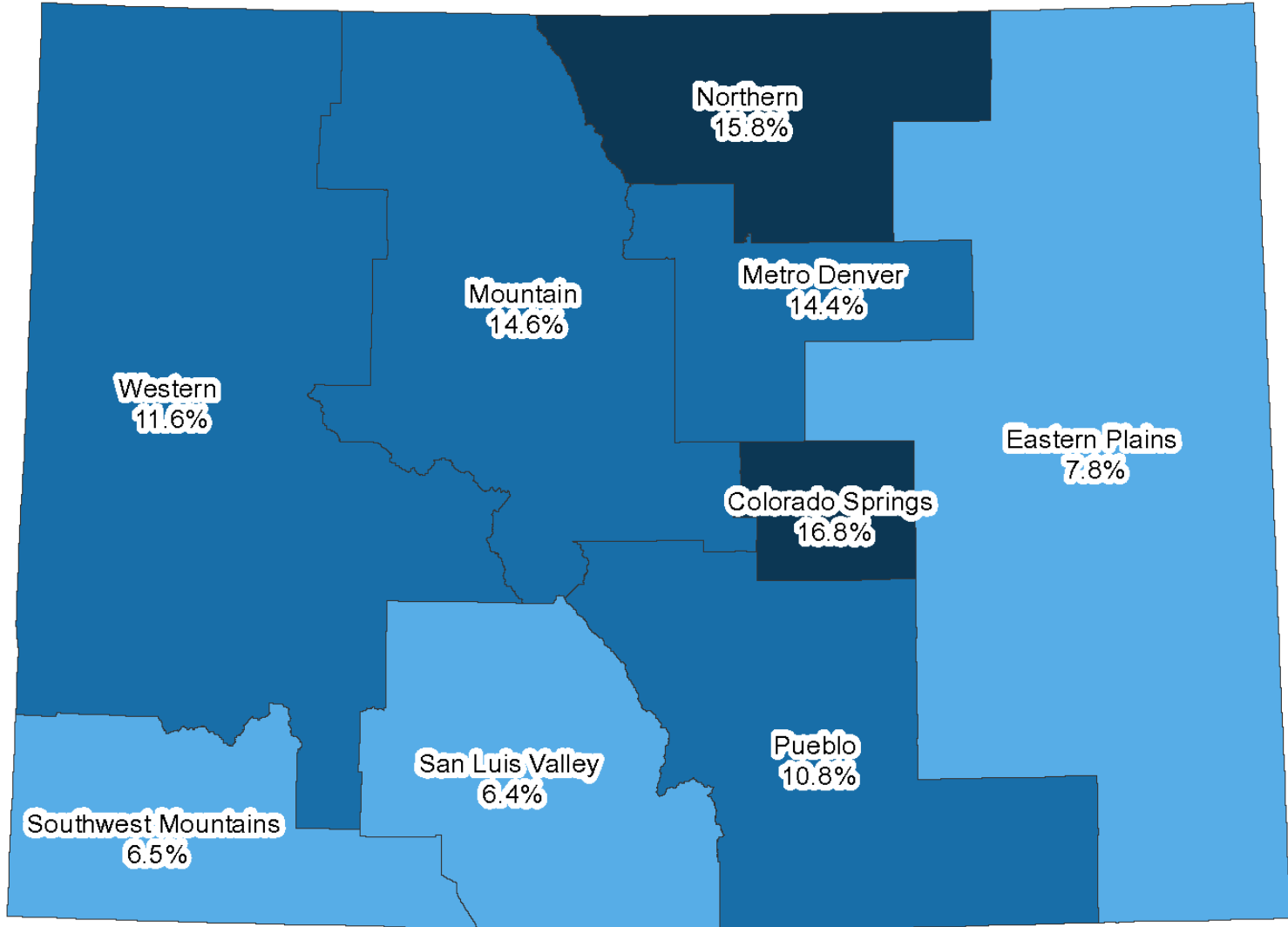
2023: Reassessment Year

Determines school finance for FY 2023-24

- **Total AVs will increase 14.1% from 2022**
 - compare to 17.0% in 2019, 10.1% in 2017, 15.0% in 2015
- **Residential AVs will increase 19.5%**
 - Represents appreciation between June 2020 and June 2022
 - Statewide appreciation in home prices
- **Nonresidential AVs will increase 9.1%**
 - Expected rebound in commercial values

2023 Reassessment Year

Total Assessed Values: 14.1% growth, year-over-year



School Finance Outlook

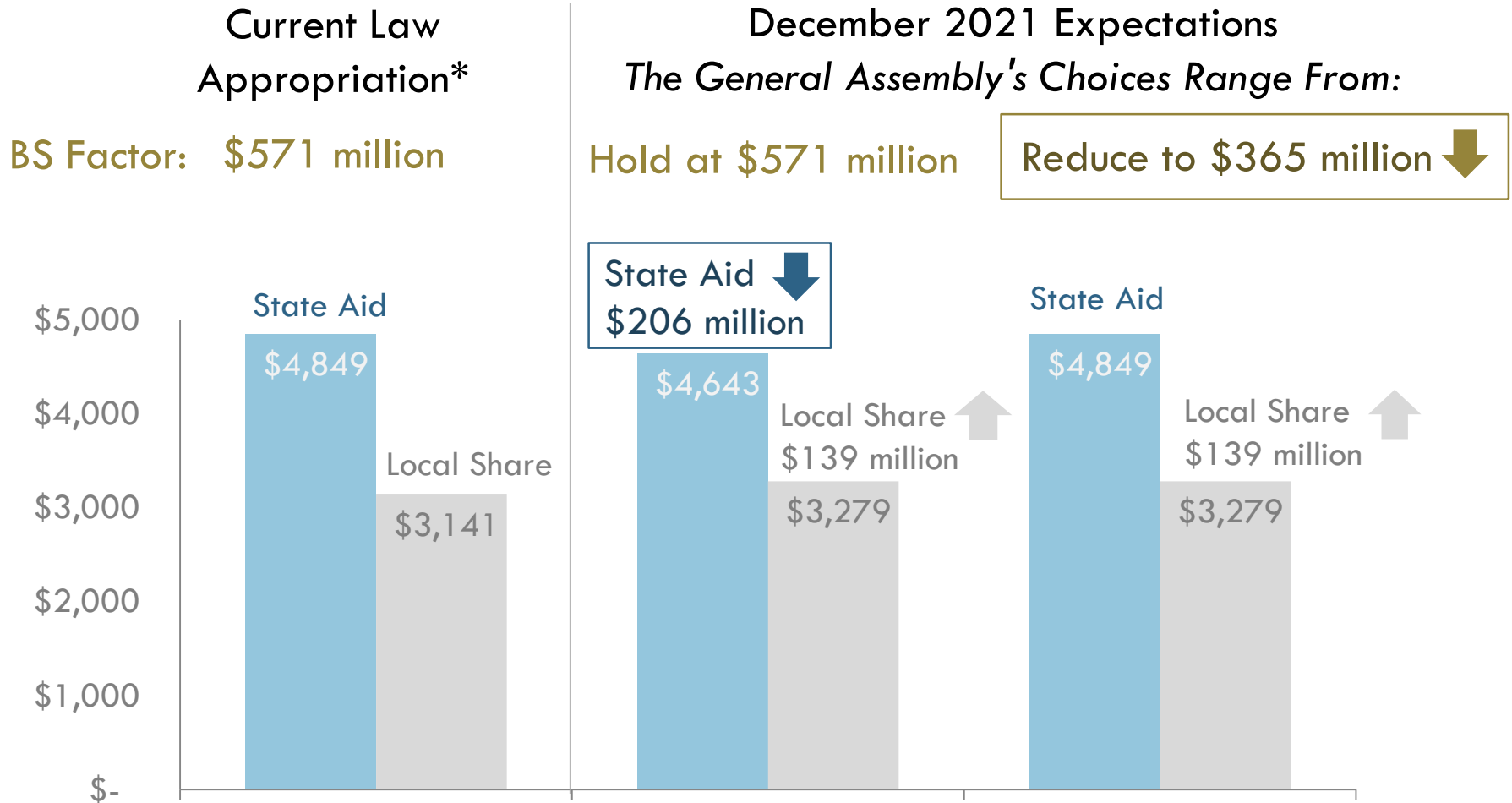


School Finance Basics

- **Funded Pupil Count** is the statutory student count metric used to allocate funding.
- **State Aid = Total Program - Local Share.**
- General Assembly sets the **Budget Stabilization Factor** to establish Total Program and State Aid.
- General Assembly balances contributions to State Aid from **General Fund** and **State Education Fund.**

Change in Expectations for FY 2021-22 School Finance Funding

Dollars in Millions

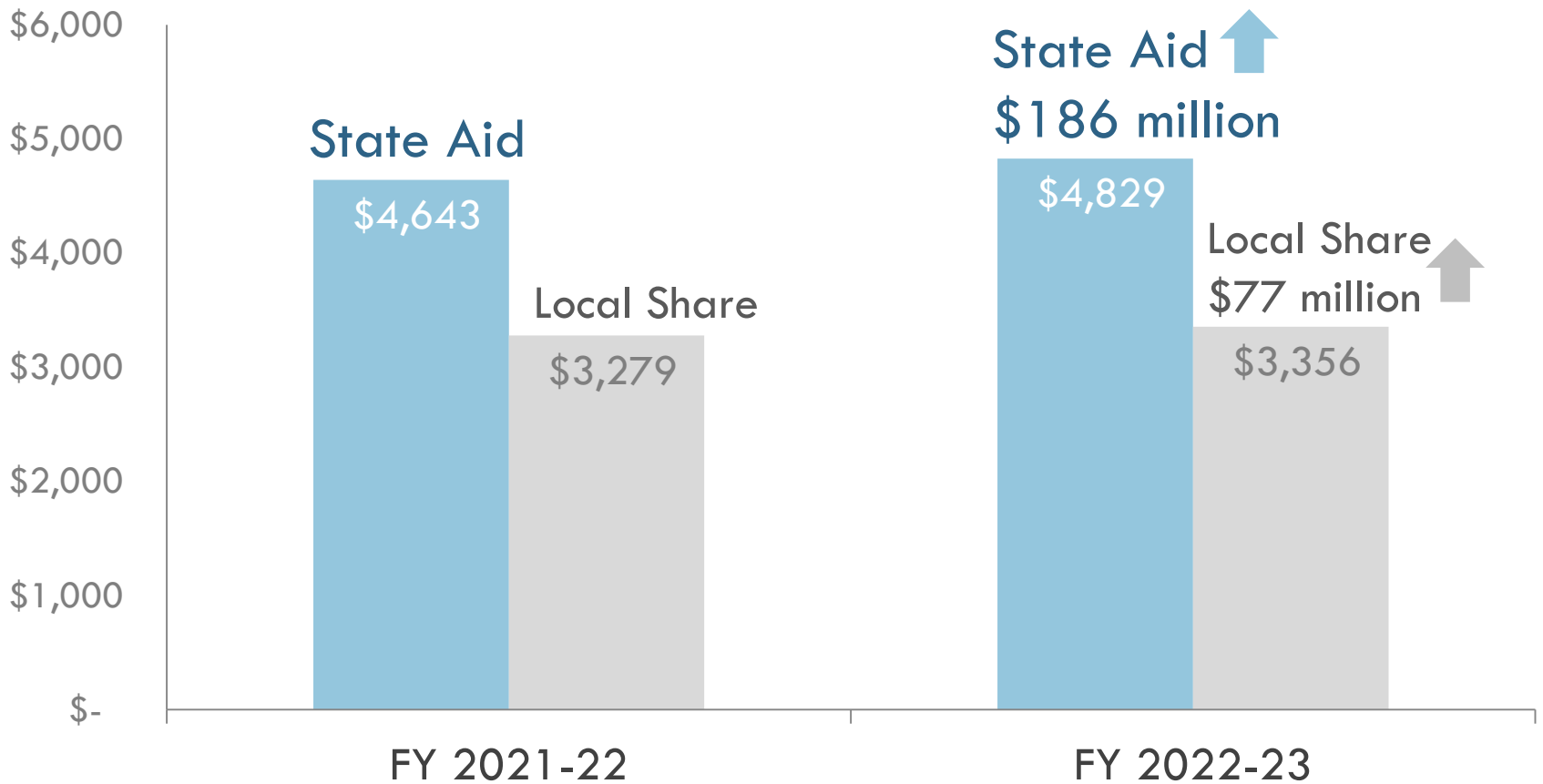


Source: Legislative Council Staff December 2021 forecast.

*Current Law appropriation uses December 2020 forecast.

Year-over-Year Change in School Finance Funding FY 2021-22 to FY 2022-23

Dollars in Millions



Source: Legislative Council Staff December 2021 forecast.

*Assumes a constant Budget Stabilization Factor.

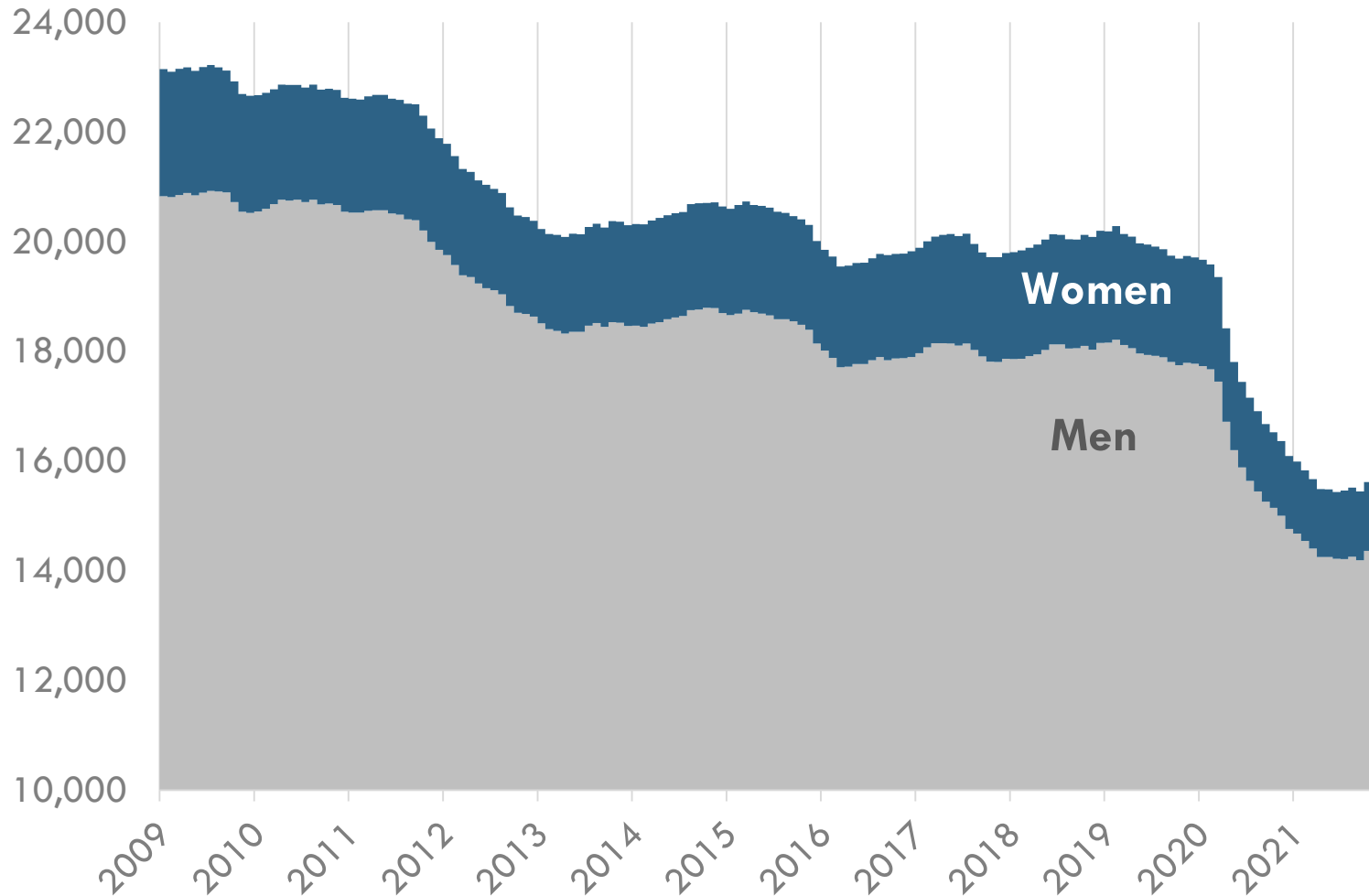
Implications for Balancing General Fund (GF) and State Education Fund (SEF) Contributions in 2022-23

- \$206 million reduced obligation in 2021-22; \$186 million increase in state aid requirement in 2022-23 year-over-year.
- In 2021-22, could decrease GF or SEF spending by \$206M or reduce BS Factor or some combination.
- In 2022-23, Governor's request reduces BS Factor to \$421 million. JBC scenario requires SEF ending balance of \$400 million.
- These imply one-time spending increase of \$533 million from SEF; \$303 million decrease in GF appropriation.
- GF appropriation will increase by \$263 million in 2023-24 in this scenario.

Adult Corrections Populations

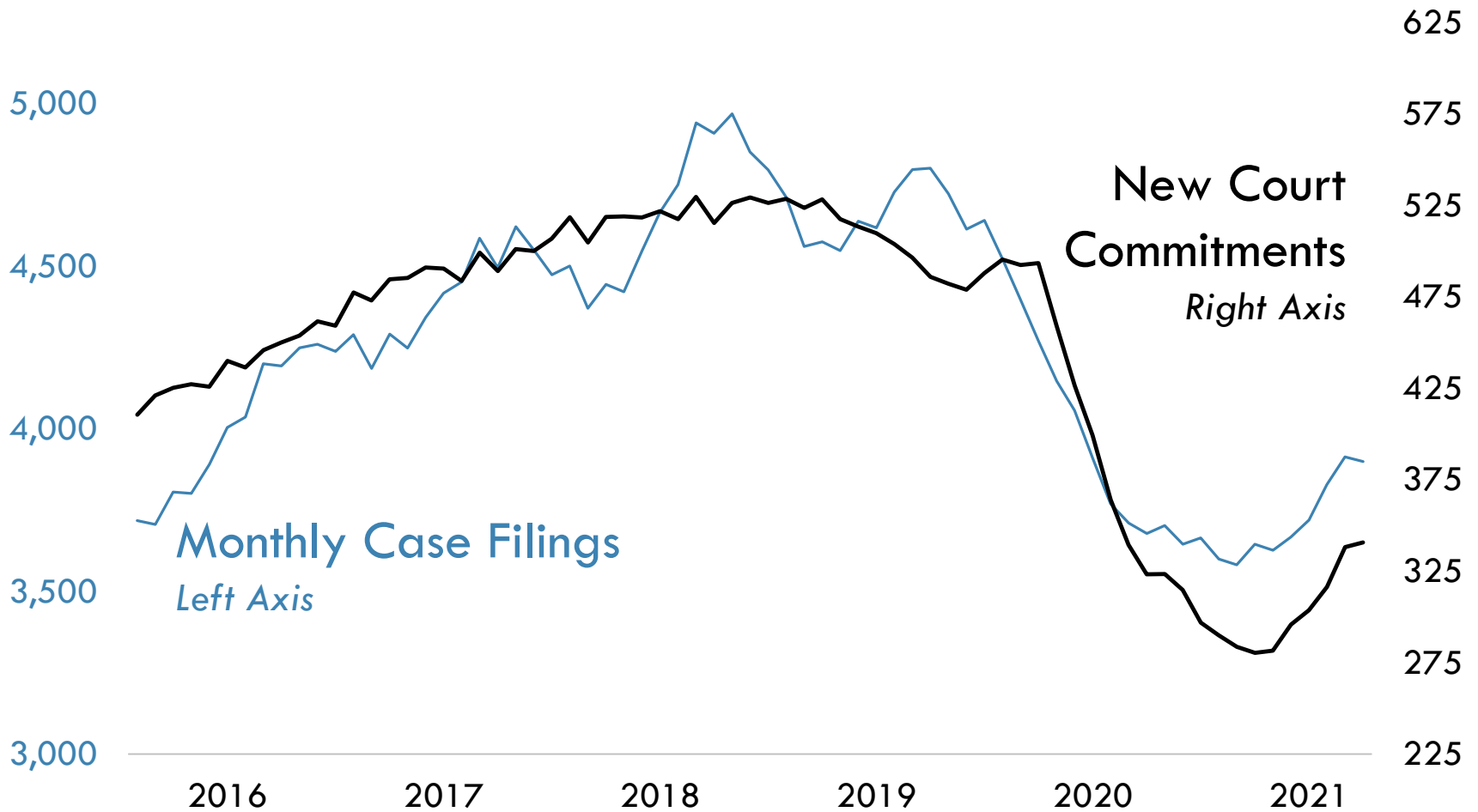


The prison population declined by 21 between February 2020 and June 2021



Source: Department of Corrections, Office of Planning and Analysis. Monthly data through November 2021.

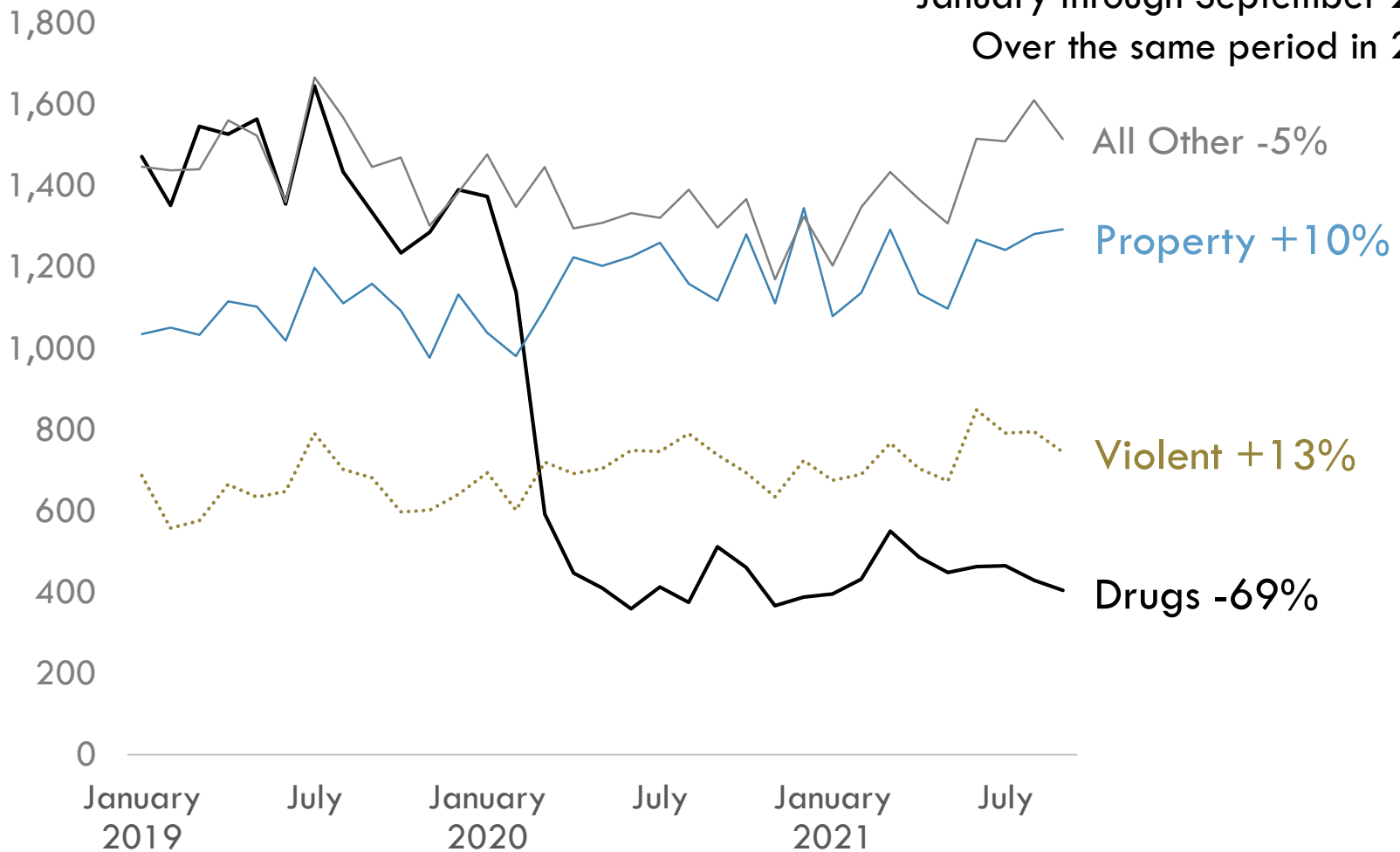
Case filings and commitments are recovering from pandemic lows



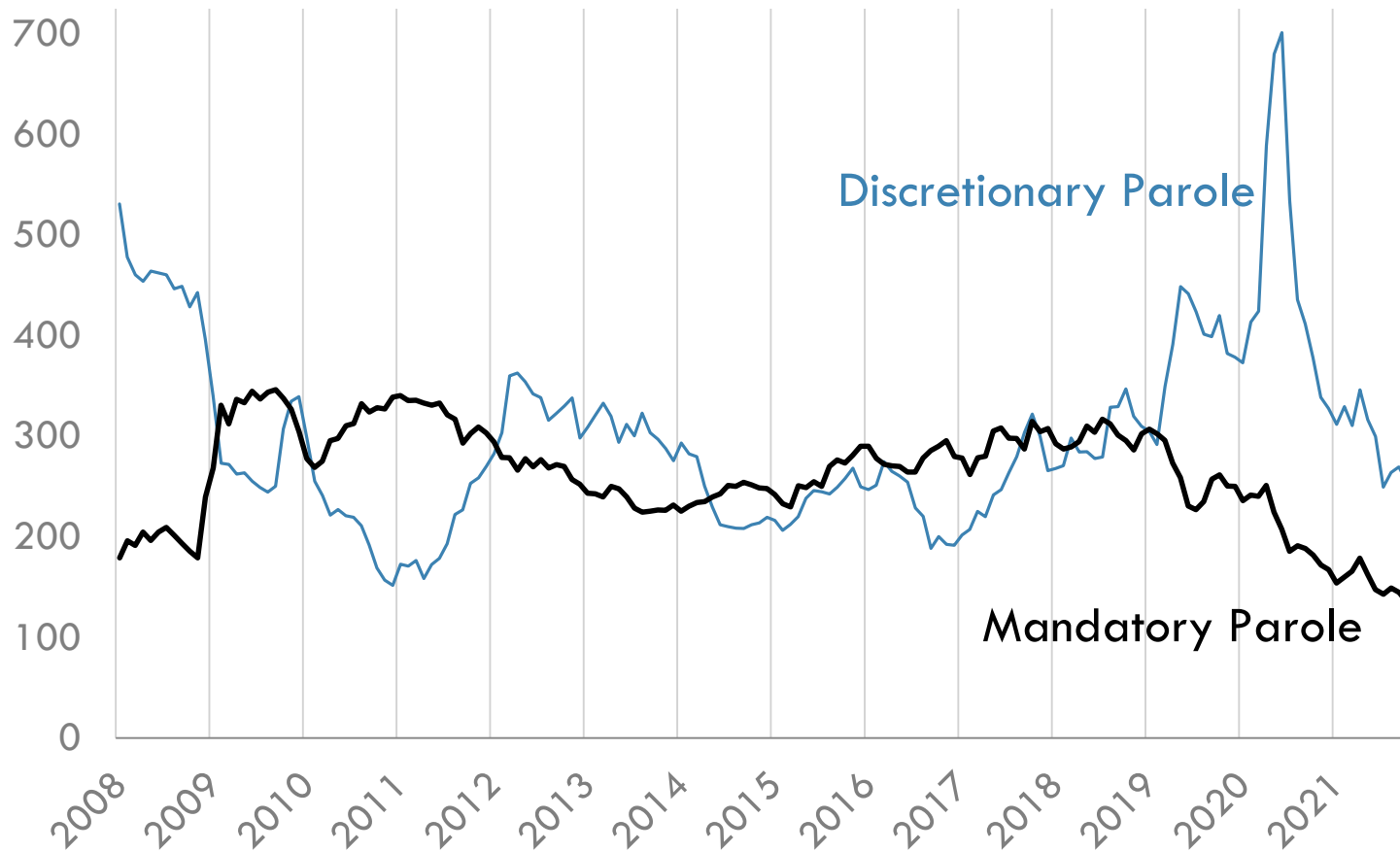
Source: Office of the State Court Administrator (case filings) and Department of Corrections, Office of Planning and Analysis (new court commitments). Monthly data; both series shown as six-month moving averages through September 2021.

State district court drug felony case filings are down 69 percent from pre-pandemic levels

Felony case filing trends,
January through September 2021
Over the same period in 2019

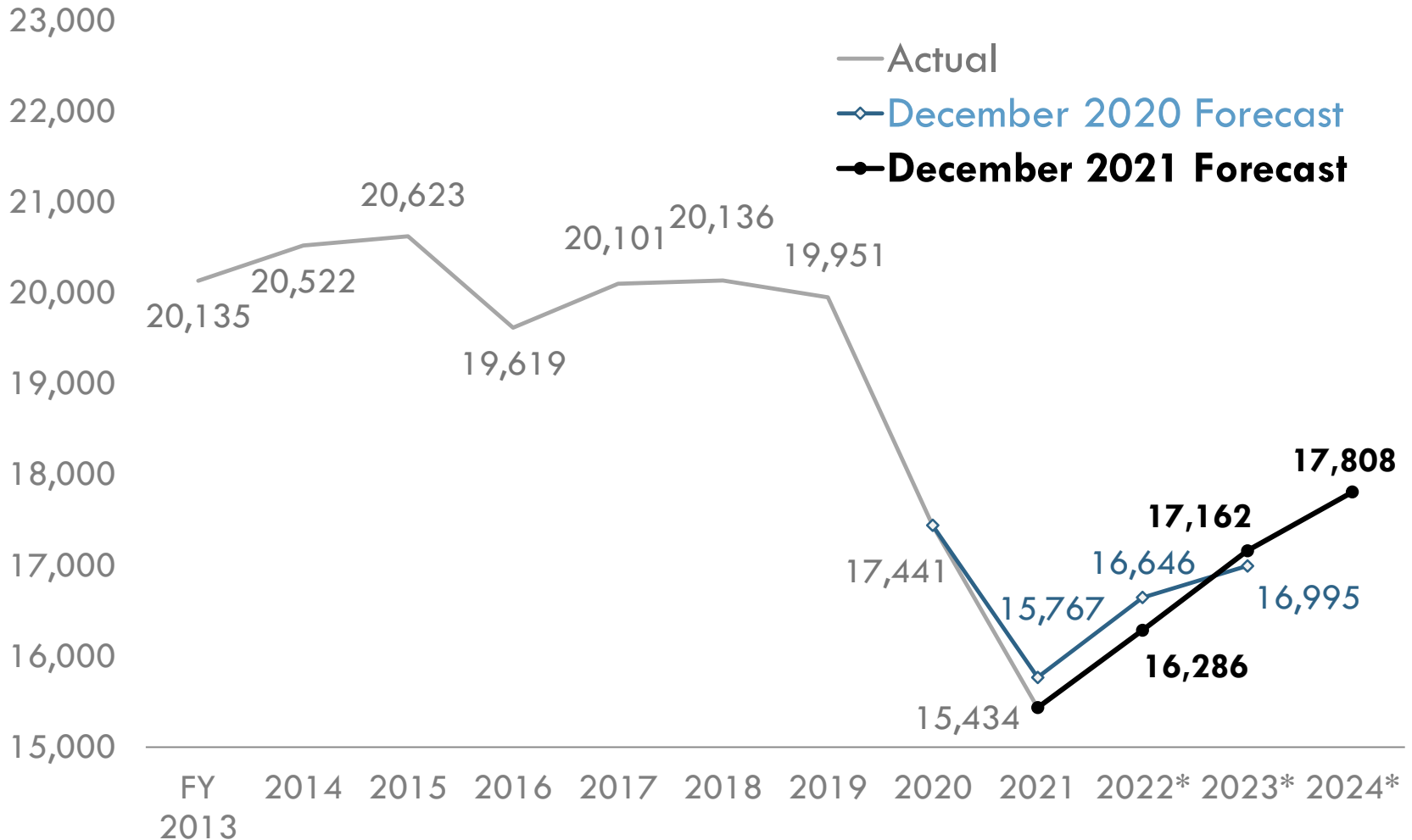


After spiking in 2020, discretionary parole is down



The prison population will increase in 2022

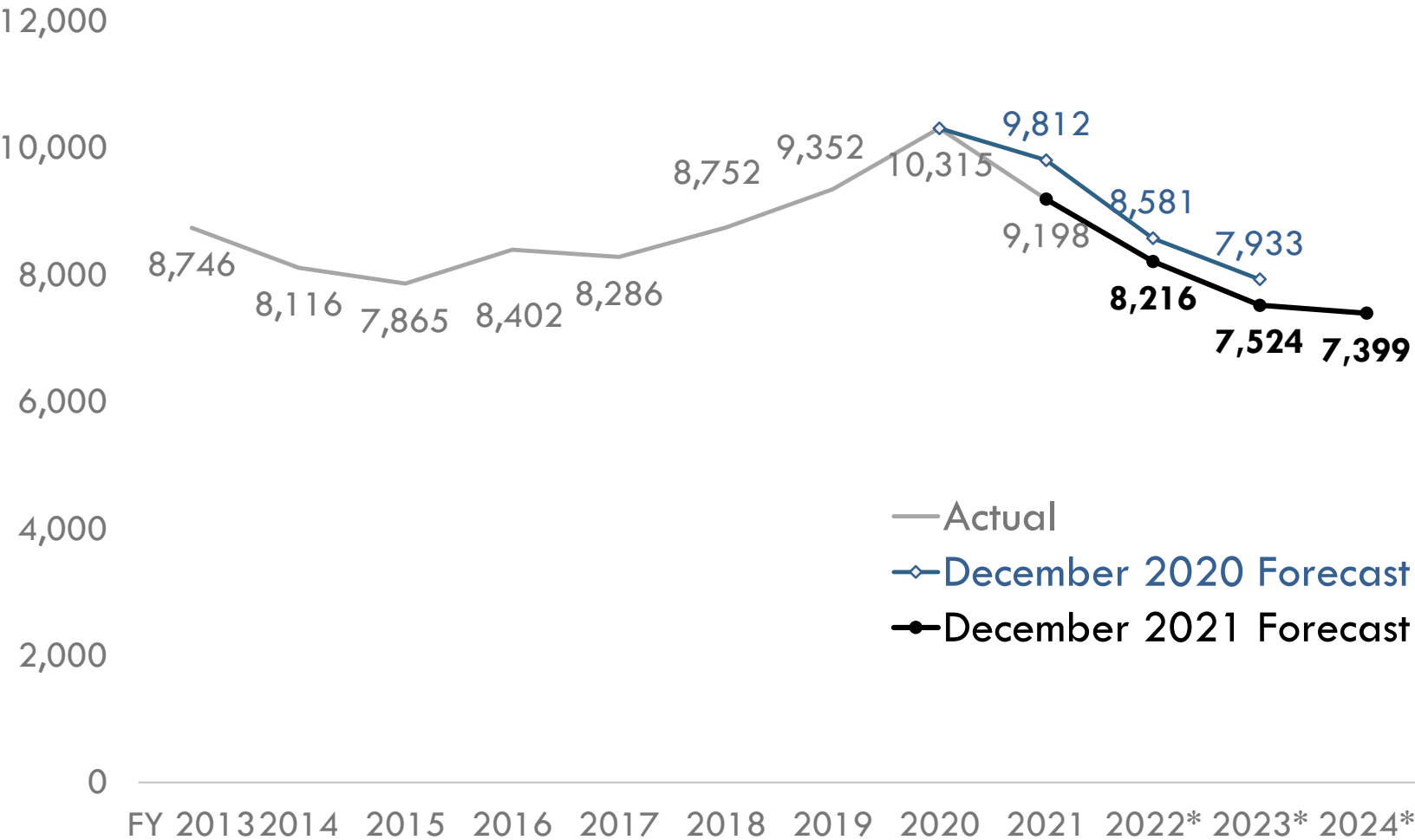
Adult Inmate Population Forecasts as of June 30



Source: Department of Corrections and *Legislative Council Staff December 2021 forecast.

Parole caseload peaked in June 2020 and will continue to decline

Adult Parole Caseload Forecasts as of June 30



Source: Department of Corrections and *Legislative Council Staff December 2021 forecast.

Forecast uncertainty remains elevated

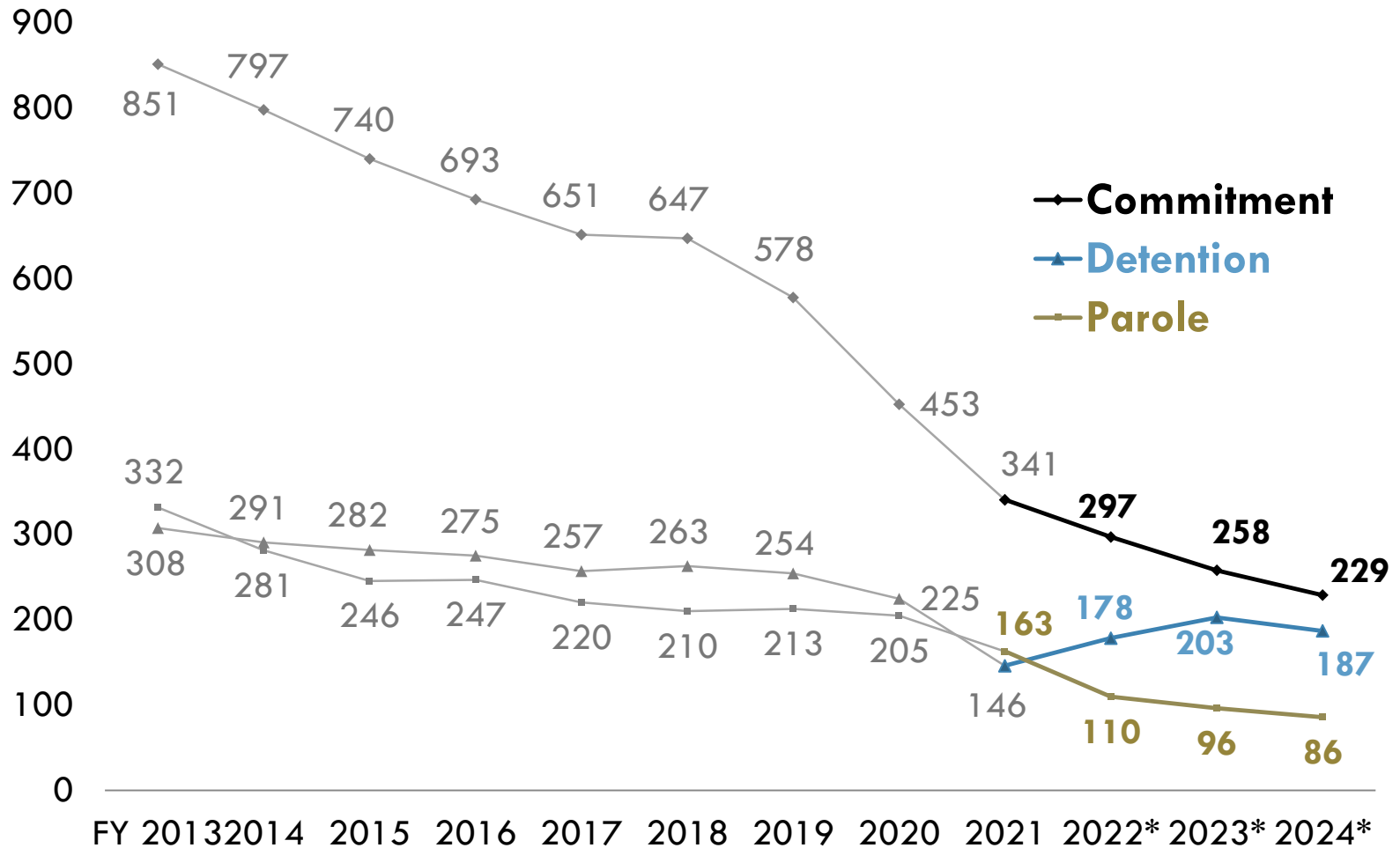
- This forecast always contains (bidirectional) error
 - Before 2020, current year forecast error averaged about 1.7 percent, or 328 inmates
 - Current year forecast error from the December 2020 forecast is 2.2 percent, or 333 inmates
- Relative to last year, risks are lower, but remain elevated
- Trajectory of COVID-19 pandemic and efforts to contain it remain the most important risks to the forecast
- Conflating permanent impacts from behavioral or policy changes from temporary impacts from the pandemic raises the possibility of forecast error

Youth Corrections Population Forecast



All DYS populations have fallen

Average Daily Populations



Questions?

Budget, Economy, General

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K-12 Enrollment

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